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PROSPECTS AND CHALLENGES OF THE WESTERN BALKANS AS A NEARSHORING DESTINATION

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF APPENDICES

LIST OF ABBREVIATIONS

sl. – Slovene

- **ACEA** – (sl. Evropsko združenje proizvajalcev avtomobilov); European Automobile Manufacturers' Association
- **AI** – (sl. Umetna inteligenca); Artificial Intelligence
- **CE** – (sl. Krožno gospodarstvo); Circular Economy
- **CSIS** – (sl. Center za strateške in mednarodne študije); Center for Strategic and International Studies
- **EEC** – (sl. Evropska gospodarska skupnost); European Economic Community
- **EBRD** – (sl. Evropska banka za obnovo in razvoj); European Bank for Reconstruction and Development

- **EIB** – (sl. Evropska investicijska banka); European Investment Bank
- **EQI** – (sl. Evropski indeks kakovosti upravljanja); European Quality of Government Index
- **ETF** – (sl. Evropska fundacija za usposabljanje); European Training Foundation
- **EU** – (sl. Evropska unija); European Union
- **EY** – (sl. Ernst & Young - globalno svetovalno podjetje); Ernst & Young (Global Consultancy Firm)
- **FDI** – (sl. Neposredne tuje naložbe); Foreign Direct Investment
- **GDP** – (sl. Bruto domači proizvod); Gross Domestic Product
- **ICT** – (sl. Informacijsko-komunikacijska tehnologija); Information and Communication Technology
- **ILO** – (sl. Mednarodna organizacija dela); International Labour Organization
- **IMO** – (sl. Mednarodna pomorska organizacija); International Maritime Organization
- **IoT** – (sl. Internet stvari); Internet of Things
- **ITC** – (sl. Mednarodni trgovinski center); International Trade Centre
- **McKinsey** – (sl. McKinsey & Company - podjetje za poslovno svetovanje); McKinsey & Company (Management Consulting Firm)
- **MSW** – (sl. Trdni komunalni odpadki); Municipal Solid Waste
- **OECD** – (sl. Organizacija za gospodarsko sodelovanje in razvoj); Organisation for Economic Co-operation and Development
- **R&D** – (sl. Raziskave in razvoj); Research and Development
- **SMEs** – (sl. Mala in srednje velika podjetja); Small and Medium Enterprises
- **UNCTAD** – (sl. Konferenca Združenih narodov za trgovino in razvoj); United Nations Conference on Trade and Development
- **WB6 CIF** – (sl. Investicijski forum šestih zahodnobalkanskih gospodarskih zbornic); Western Balkans 6 Chamber Investment Forum
- **WIIW** – (sl. Dunajski inštitut za mednarodne gospodarske študije); Vienna Institute for International Economic Studies
- **WFD** – (sl. Okvirna direktiva o odpadkih); Waste Framework Directive
- **WTO** – (sl. Svetovna trgovinska organizacija); World Trade Organization

1 INTRODUCTION

One of the simple and widely used definitions of the supply chain is the passing of materials within a set of companies (Mentzer et al., 2001, pp. 3-5). The process takes place between the suppliers and the customers (Govil & Proth, 2002), and this constant process is composed of linkages that can be identified as production, distribution, and consumption. The scope of this dynamic, intricate, and ever-changing relationship between the linkages of a supply chain determines its nature. If the relationship between the links of the supply chain extends beyond the traditional limits of domestic borders and becomes a cross-border activity, it becomes a global supply chain (International Labour Organization, 2016).

With globalization, global supply chains increased in number and grew in size. With the advancement of technology, it became cheaper to move products from one place to another, which led to the movement of production to the cheapest place possible. Even though initially it came with many advantages, recent monumental events such as the COVID-19 pandemic revealed the possible downsides of carrying all means of production far away. Global supply chains suffered various disruptions in the past due to unpredictable events such as earthquakes, but COVID-19 brought upon something that was unprecedented (Fan et al., 2023).

The globalization of supply chains has brought significant economic benefits, but it has also made them more vulnerable to disruptions. The COVID-19 pandemic has highlighted these vulnerabilities, prompting companies to reconsider their supply chain strategies and explore alternatives like nearshoring and reshoring. According to a World Economic Forum report from 2023, the complexity and susceptibility of global supply chains have increased (World Economic Forum, 2023). An International Trade Centre report from 2021 also foresees an increased focus on regionalization (International Trade Centre, 2021).

A 2023 study by McKinsey shows a regionalization trend that is becoming more apparent among companies, with the goal of reducing reliance and the distance to their suppliers, aiming to bring production closer to home (McKinsey & Company, 2023). Another study by EY indicates that many businesses are focusing on diversifying their suppliers, increasing inventory levels, and investing in digital technologies (EY, 2023). These trends, which will shape the future of global supply chains, are highly relevant for the European Union as it seeks to reduce its supply chain dependency on non-EU countries. Considering this challenge, the Western Balkans appear to be a plausible option as a nearshoring location for EU countries (European Commission, 2023).

The Western Balkans offer several advantages for nearshoring, including lower labor costs, cultural and geographical proximity to the EU, and ongoing efforts to align with EU standards (World Bank, 2023). These factors have kindled an interest in the Western Balkans as a nearshoring destination for European companies looking to relocate parts of their supply chains to the region. One case study reported by Automotive News highlights production disruptions within the automotive industry due to supply chain disruptions, prompting companies to diversify suppliers and increase inventory levels (Automotive News, 2023). According to the World Economic Forum, global supply chain disruptions led to an eight-fold increase in average container shipping rates and extended global transit times by 25% (World Economic Forum, 2023).

Another recent study emphasizes the advantages of using the Western Balkans as a nearshoring destination for European companies, viewing the region as a good substitute for more distant locations that are unstable due to geopolitical tensions and economic problems (The Vienna Institute for International Economic Studies, 2023). Jean-Paul Rodrigue's study on the evolution of global supply chains claims that they have become more complex over time (Rodrigue, 2020).

Due to the disruption of the global supply chains, companies that are mostly based in the Western side of the world started looking into various possible solutions to diffuse the problem of global supply chain disruptions. This thesis will inspect the plausibility of one of the possible solutions that could be considered against the global supply chain disruptions. The suggested solution is the possibility of the Western Balkans becoming a nearshoring destination for various European-based companies. To do so, the thesis will first establish the academic definition of both a supply chain and a global supply chain, then it will examine the changes that have occurred until today and the shoring methods that have been utilized. In the second part, the thesis will include an inspection of the effects of the COVID-19 pandemic, the political and economic discourse regarding the current situation, and the future of global supply chains and the current role of the Western Balkans within the global supply chains. Last but not least, for the final part, the thesis will delve into the political discourse regarding the role of the Western Balkans within the global supply chains, evaluate the recent experiences of European countries with the Western Balkans, and it will try to suggest the fulfillment of certain requirements that might push the Western Balkans into becoming a reliable option for nearshoring. To summarize, the primary objectives of this research are:

- To understand the views and perspectives of academicians, business professionals, think tanks, and policymakers regarding nearshoring in the Western Balkans.
- To identify barriers, challenges, and enablers such as infrastructure, workforce dynamics, and regulatory environments.
- To explore recommendations, strategies and initiatives to improve the region's overall attractiveness to foreign investors.

This thesis focuses on a crucial gap in the current literature by delving into the nearshoring potential of the Western Balkans, a region that is gaining recognition in global supply chains. Due to the negative effects of the COVID-19 pandemic and the ongoing geopolitical tensions, multinational companies have increasingly prioritized supply chain resilience, diversity, and closeness to key markets. This research contributes to both academic and practical scopes by offering a distinctive understanding of the region's competitive advantages and challenges, helping policymakers and companies in strategic decision-making. The following chapters are structured to provide a comprehensive analysis: Chapter 2 reviews the relevant literature; Chapter 3 outlines the theoretical framework; Chapter 4 explains the research methodology; Chapter 5 discusses contextual background; Chapter 6 presents findings and analysis; and Chapter 7 provides actionable recommendations and future research directions and Chapter 8 concludes the research.

2 KEY ISSUES IN GLOBAL SUPPLY CHAINS AND NEARSHORING

2.1 Defining a Supply Chain

The passing of materials within a set of companies (Mentzer et al., 2001, pp. 3-5) is one of the most commonly used definitions of a supply chain. Currently, transactions specific to global supply chains account for 76% of world trade (International Trade Administration, n.d.). Supply chain management, which deals with the total flow of the necessary material, information, and financial flows to fulfill customer demands (Jones & Riley, 1985, pp. 16-26), has a market volume of $19.58 billion. This number is expected to reach $30.91 billion by 2026 (Placek, 2022a).

Another definition of a supply chain, which has a more exhaustive approach, is provided by Martin Christopher, who defines a supply chain as a "network of organizations that are involved, through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer" (Christopher, 1992). A more recent and simpler definition considers it as an involvement of all parties in order to fulfill a customer request (Chopra & Meindl, 2016). Supply chains are the primary mechanism for the functioning of international trade. Hence, any disruption of global supply chains would result in a decline in international trade and vice versa.

According to Markets & Markets, the global supply chain management market is expected to grow from USD 23.2 billion in 2020 to USD 41.7 billion by 2026, at a CAGR of 10.3% during the forecast period (MarketsandMarkets, 2022). The COVID-19 pandemic played a major role in exposing the vulnerabilities of global supply chains, which led many companies to diversify their suppliers (Baldwin & Freeman, 2021).

Due to the biggest global disruptions that happened to global supply chains recently, companies and organizations launched various precarious measures such as the competitive strategic window, which "window analyses the competitive landscape in terms of markets, applications, and geographies to help vendors define an alignment or fit between their capabilities and opportunities for future growth prospects" (GlobeNewswire, 2021). Additionally, there have been efforts to transform supply chains and make them digital and more efficient (McCarthy & Ivanov, 2020).

2.2 Defining Global Supply Chains

A global supply chain extends beyond domestic borders and becomes a cross-border activity, integrating suppliers, manufacturers, and distributors worldwide to optimize costs and efficiencies (International Labour Organization, 2016). With the advancements in technology and globalization, companies now manage supply chains that span across various countries, integrating suppliers, manufacturers, and distributors worldwide to optimize costs and efficiencies.

What makes a global supply chain different is its scale and increasing complexity. Global supply chains are more complex since they involve numerous suppliers, manufacturing units, and many more entities that spread across multiple countries and even continents (Gereffi et al.,2020). Since global supply chains are becoming more complex, there is a shift towards a more technological approach with the aim of making the procedures more digital, hence enabling real-time data exchange and improved efficiency (Hugos, 2020).

Global supply chains, sometimes called global value chains or global production networks, have become a key feature of the world economy. They are crucial for international trade, enabling companies to source materials and components from different parts of the world, assemble them in another, and sell the final products globally. These advancements in global supply chains also act as a motor that drives forward the development and improvement of technological adoptions. This process creates activities that require labor with enhanced skills and opens a door for more job opportunities (International Labour Organization, 2016).

While global supply chains offer significant economic benefits, they also present several challenges, including the management of complex logistics, cultural differences, regulatory compliance across different jurisdictions, and the risks associated with political instability and economic fluctuations. One big factor that accelerated this trend of new technological adoptions and seeking new ways of better efficiency, resilience, as well as regionalization when it comes to production, is the COVID-19 pandemic (Chatham House, 2021). We can argue that the pandemic highlighted the need for new technological adoptions that increase the resilience, efficiency, and flexibility of global supply chains (Baldwin & Freeman, 2021).

The recent research done by the World Economic Forum also supports this trend. The research highlights the focus on increasing the resilience, sustainability, and efficiency of global supply chains by integrating advanced technologies (World Economic Forum, 2023). MacCarthy & Ivanov (2022) point out the crucial role of digital technologies when it comes to building a resilient global supply chain. Additionally, Gereffi & Lee (2012) position global supply chains as the backbone of international trade.

2.3 Understanding Nearshoring

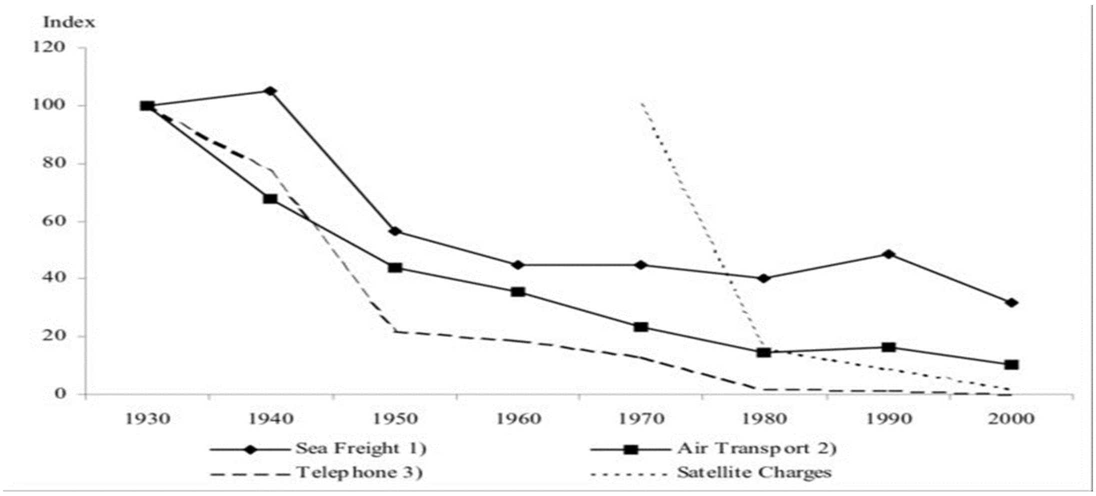
Nearshoring is the practice of relocating manufacturing operations or services to a location that is geographically closer to the target market. This strategy is usually utilized in order to reduce transportation costs, lower risks, and improve resiliency. Contrary to offshoring, nearshoring emphasizes proximity and cultural alignment. In the European context, this typically involves moving production from Asia to Eastern or Southeastern Europe (Dachs et al., 2021).

The interest in nearshoring has increased recently due to global supply chain disruptions, increasing shipping costs, and geopolitical tensions. Most companies are looking for new ways of creating more resilient and agile supply networks, and the Western Balkans have emerged as a potential hub for such reorganization. While the concept has gained popularity, most studies have been focusing on Eastern Europe (UNCTAD, 2023).

2.4 Global Supply Chain to This Day

Technology-led declines in transportation costs are one of the main factors that accelerated international trade (Krugman, 1995, p. 341). With the help of the UNCTAD report, it can be argued that the decline in transport costs is one of the main factors that has enlarged world trade. The graph below showcases the price changes of sea freight from the start of the 1930s to the 2000s. A more recent study from UNCTAD supports Krugman's argument, which claims that advancements in containerization of sea freight have significantly reduced transportation costs (UNCTAD, 2023).

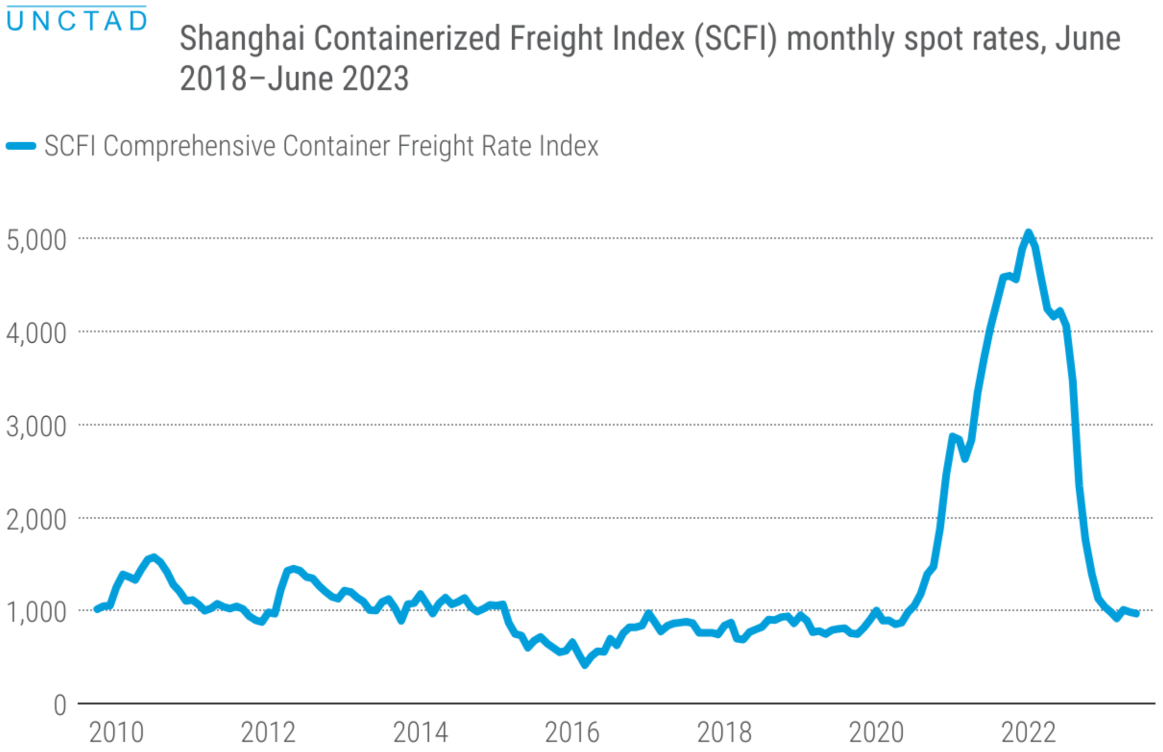
Figure 1: Transportation Costs (up to year 2000)



Source: Busse (2003).

Most recent report from UNCTAD regarding container shipping costs shows the price consistency until the COVID-19 Pandemic, the unprecented rise in prices and the current trend, where the shipping costs are returning to pre-COVID-19 levels.

Figure 2: Shanghai Containerized Freight Index (SCFI) Spot Rates, 2019–2023



Source: UNCTAD (2023).

The figure above shows the volatility of freight prices over the last years. Thanks to the first figure from Busse (2003) and this recent report from UNCTAD, we are able to see the scale of the pandemic-induced global supply chain disruption and the dynamic nature of global shipping costs. To understand the narrative of global supply chains and where the Western Balkans sits within this narrative, inspecting the wage changes in China and its comparison to the EU and the Western Balkan states is an important action.

A few other reports support the claim that prices in containerization helped lower the cost of global shipping and increased maritime trade. According to IMO, thanks to new ship design, fuel efficiency, and logistics technologies, maritime transport has gone through significant transformations, which have led to highly efficient and reliable global supply chains (IMO, 2021). In addition to technology, a World Trade Organization report identifies demographic change, investment, energy, and other natural resources, transportation costs, and institutions as crucial factors (World Trade Organization, 2013). Containerization is a key factor that created a decline in transportation costs (Bonney & Donovan, 2006). Around 80 percent of global trade by volume and over 70 percent by trade value is carried by sea (United Nations Conference on Trade and Development, 2018).

Research conducted by UNCTAD in 2023 designates containerization as the main cause of the rapid expansion of international trade. The study claims that containerization revolutionized global trade by reducing costs while increasing efficiency (UNCTAD, 2023). A World Bank report also supports this argument, claiming that declines in transportation costs have been the key driver of globalization and the increased efficiency of global supply chains (World Bank, 2020). With technological advancements and the decline in transportation costs, more goods moved to farther locations, increasing the growth of global supply chains (Damijan et al., 2013).

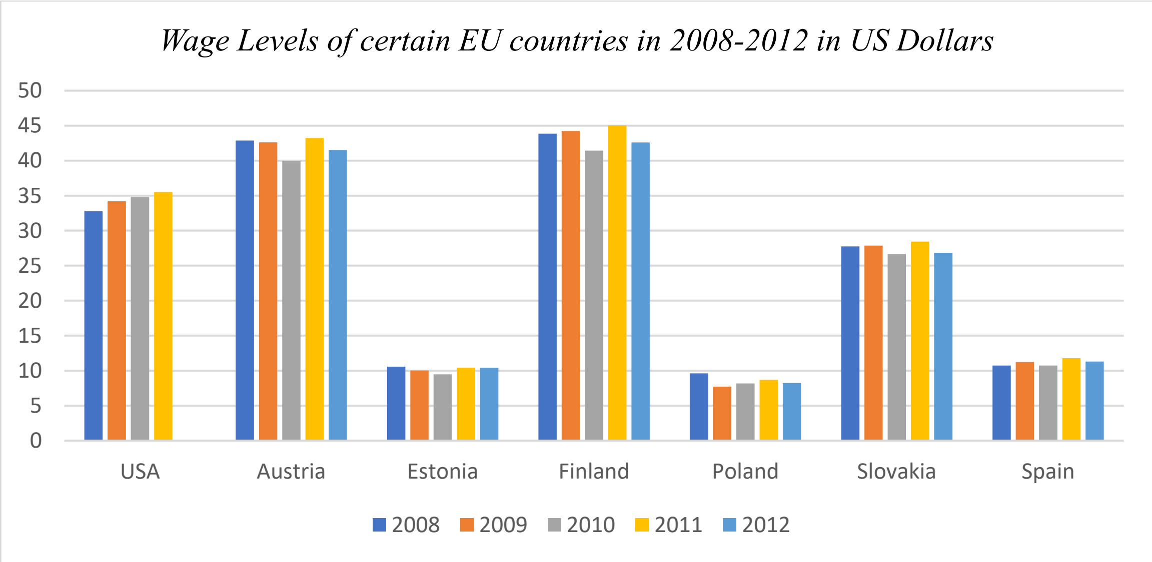
However, this was not the only factor. Since transportation was cheaper than ever, many companies started moving their production to locations with lower labor costs. "Between 1984 and 1994, foreign direct investments in China increased dramatically. In 1996, the total FDI to China was $42 billion" (Dees, 1998). The European Union has continuously invested in China for over twenty years. The cumulative FDI from the EU to China reached more than €140 billion (Heidecker, 2022). Due to the lower cost of production in China, Western companies utilized offshoring, primarily a geographical activity where the manufacturing is done in a different location and then transported to targeted regions (Webb, 2017). The trend of moving production from the EU to China and the foreign direct investments from European companies continued for a while (Vanham, 2012).

Figure 3: Wage Levels of China in 2008 in US Dollars

Source: European Central Bank (2011).

The chart above shows the average hourly compensation in China between the years 2005 and 2008, with a rate of 1.3 dollars in 2008. For comparison, the chart below indicates hourly compensation in certain European countries, covering various developed parts of the region.

Figure 4: Wage Levels of certain EU countries in 2008-2012 in US Dollars

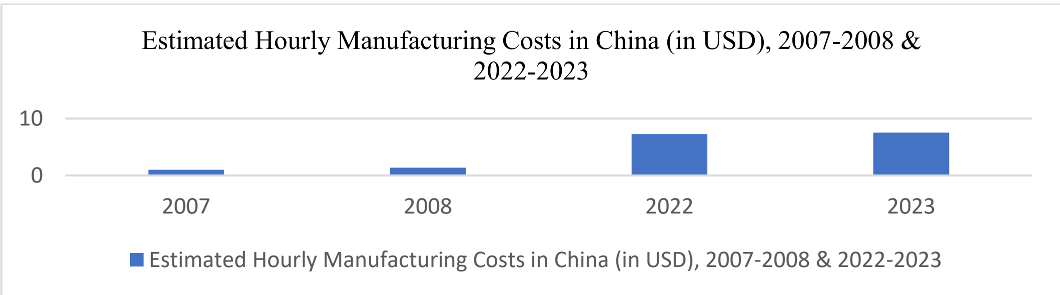


Source: U.S. Bureau of Labor Statistics. (2006, 2007, 2008, 2009, 2010, 2011, 2012).

The chart above shows that the cost of employing manufacturing workers in less developed countries in the EU is around 10 USD per hour, while more developed ones, such as Austria and Finland, are close to 50 USD per hour. The initial comparison between China and the EU countries regarding the hourly compensation displays a huge gap in terms of labor cost.

To have a better understanding of the shifts that are happening in global supply chains, the next step would be to have a look at current hourly wage costs in China and include the labor costs in the Western Balkans. The figure below displays the compensation rates for manufacturing workers in China for the years 2022 and 2023. To showcase the dramatic rise in wages, the data from 2007 and 2008 are included as well.

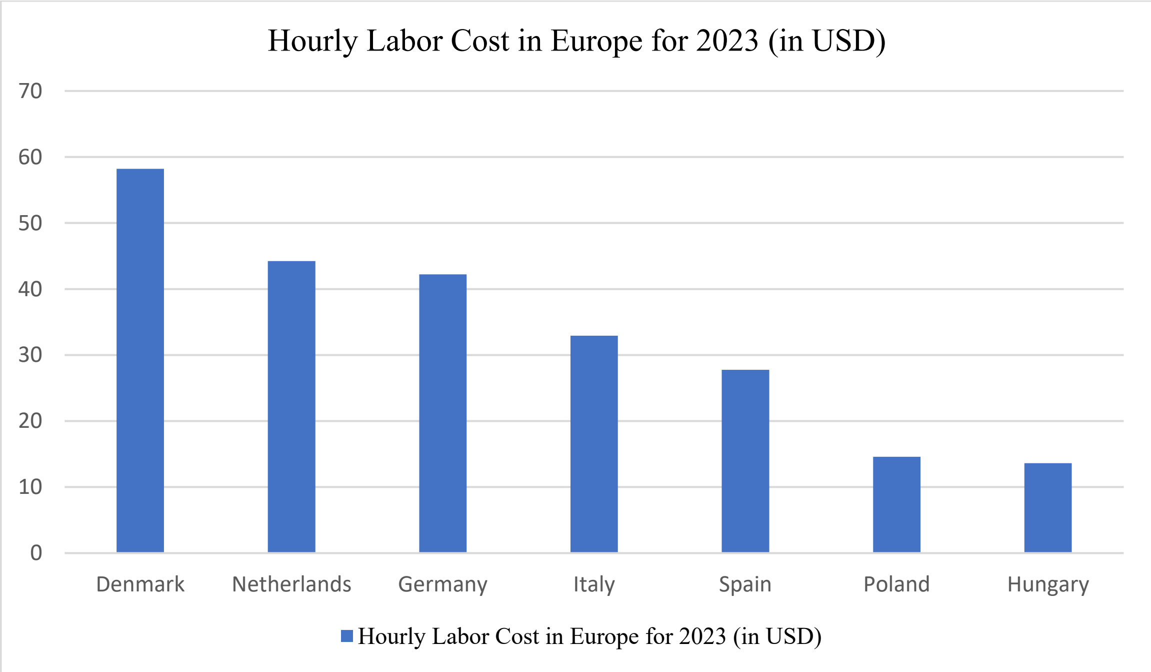
Figure 5: Hourly Compensation for Manufacturing Workers in China (USD, Estimated from Annual Wages and Exchange Rates)



Source: Trading Economics (2023).

The figure above, which is taken from Trading Economics, displays and compares the hourly compensation rates for China. As can be seen from the figure, the wages have seen a significant increase over a decade.

Figure 6: Average Hourly Labor Costs in European Union Countries (2023)



Source: Statista (2023).

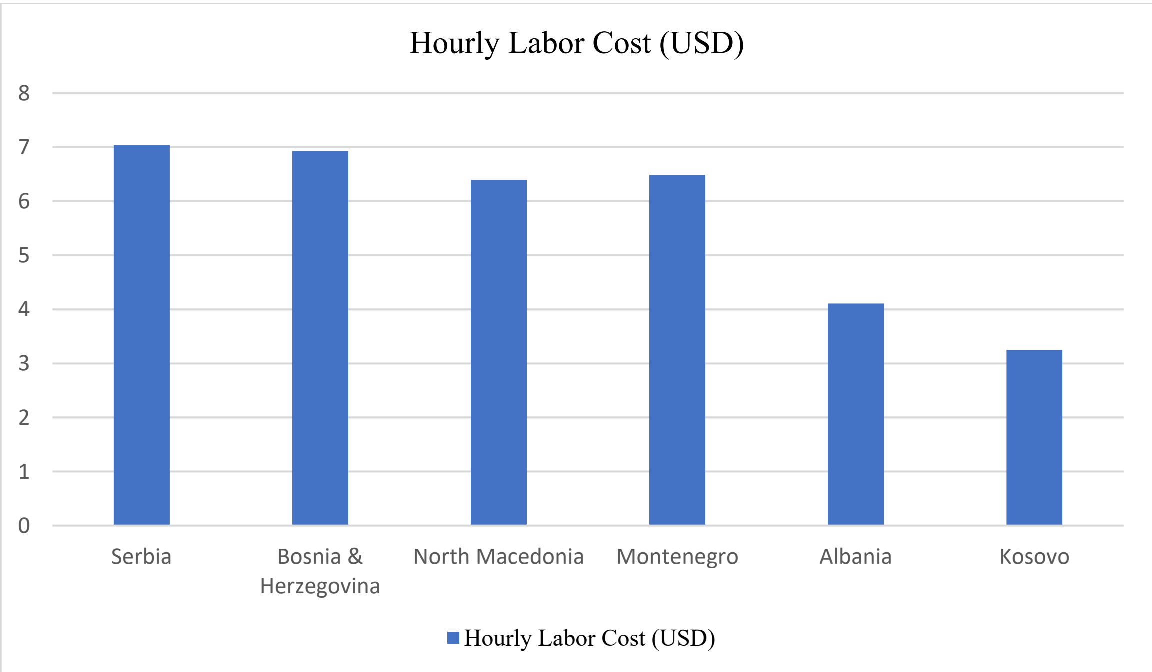
To make a more recent comparison, the figure above is utilized to display the hourly average cost to employ a worker in different regions of the EU. The cost of wages ranges from 57 USD to 12.61 USD, depending on the various parts of the EU. To complete the comparisons and understand where the Western Balkans sit in this hourly wages comparison, figure 7 on page 11 below is used. Assessing each figure helps us identify the exponential difference in hourly wage increases between China and the EU.

After the wage increases in China, the COVID-19 pandemic, the inflation in sea freight rates, and the political instability changed the situation. In general, the prices of importing manufacturing products from China have increased significantly due to the pandemic, global supply chain disruptions, and rising labor costs in China. Despite these changes, China still remains a low-cost production hub. However, the trend shows a gradual decline in cost advantages (UNCTAD, 2022).

Recently, the president of the European Union Chamber of Commerce in China, Jörg Wuttke, said, “China is not the stable sourcing destination that it used to be” (Yang & Mitchell, 2022). Due to COVID-19 and the price increase in sea freight rates, the number of freight shipments from China to the EU declined in parallel (Placek, 2022). Another reason that disrupted global supply chains and continues to do so is the conflict between Ukraine and Russia. Due to the ongoing war, global supply chains, especially the trade regarding food, have been highly impacted (Jagtap et al., 2022). In addition to the disruption of global food supply chains, the conflict also led to the disruption of global supply chains in general. One of the key reasons behind this is the halting of cargo bookings coming from Russia (Kalish & Lennert, 2022).

The most recent study conducted by UNCTAD highlights the significant disruptions that global supply chains faced. Some of these disruptions occurred due to geopolitical tensions and climate change issues, which created problems in key routes such as the Suez Canal, the Panama Canal, and the Black Sea (UNCTAD, 2024). A McKinsey report focuses on the perspective of firms and claims that investments in infrastructure, technology, and diversified sourcing strategies have become a priority (McKinsey Global Institute, 2022). One big example that highlights the impact of the COVID-19 pandemic and the scope of global supply chain disruptions is the rate increase of container freight. For instance, the spot rates for container shipping from Shanghai to Europe increased by 256% (UNCTAD, 2021). When we also consider the dramatic increase in hourly compensation rates in China, in addition to other developments mentioned above, it would be plausible to claim that seeking nearshoring locations might be a viable option for the companies located in the EU. To support this claim further, the figure below shows the recent wage rates in the Western Balkans:

Figure 7: Average Hourly Labor Costs in Western Balkan Countries (2023)



Source: ALTAX (2023).

As can be seen from the figure above, the hourly wage rates in the Western Balkans range from 7.04 USD to 3.25 USD. Even the highest wage rate in the region, which is in Serbia, falls short compared to the most recent wage ranges in China.

The change in labor costs and reduced efficiency in transportation resulted in the slowing of global supply chains. This has prompted European companies to search for alternatives because they consider backshoring as the last option for resolving supply chain issues (Jovanovic & Ghodsi, 2021). However, distributing the suppliers to several countries closer to the headquarters and shortening the supply routes are considered more viable options.

2.5 Shoring Methods Related to the Supply Chains

Historically, offshoring has helped many companies increase productivity with the help of lower labor costs. However, recently offshoring started to lose some of its main advantages (Gylling, Heikkilä, Jussila, & Saarinen, 2015). There are a couple of reasons for this. One would be regarding transportation costs. An increase in transportation costs would have canceled out the low wage advantages in the relocation country (Martínez-Mora & Merino, 2014). When the offshore outsourcing decision was made in the first place, rises in transportation costs and the increase in lead time difficulties were not apparent (Martínez-Mora & Merino, 2014). In addition to transportation costs, other factors might also negatively affect production. For instance, issues of protecting intellectual rights due to institutional differences between home and destination countries. Even though offshoring has its advantages when it comes to labor costs, it also entails significant risks regarding intellectual property rights and legal & regulatory framework differences between the home and the destination countries (Dholakia et al., 2012). Also, the increased complexity of quality control, physical & cultural distance might cancel out or mitigate the expected advantages of offshoring (Kinkel & Maloca, 2009). Lower production quality compared to the home country might also pose a problem. Another issue firms face is challenges regarding production quality and the difference in standards between the home country and the offshore location (Gray et al., 2013).

As companies continue to find new ways of building more resilient supply chains, the ongoing trend of offshoring is shifting more towards nearshoring due to factors such as rising labor costs in offshoring destinations and the need for more flexibility and proximity to the markets (Deloitte, 2021). In this kind of situation, nearshoring becomes an option to consider. European companies started questioning the feasibility of offshoring to Asia due to COVID-19 and its aftermath (Pla-Barber et al., 2021). The unprecedented pandemic increased transportation costs and caused new bottlenecks and shortages in supply chains (Zavarska, 2022). When offshoring does not function optimally for European companies, other shoring methods, such as backshoring and nearshoring, are discussed (Essletzbichler et al., 2021). Backshoring is bringing back materials that have been moved abroad previously (Fratocchi et al., 2014). On the other hand, nearshoring happens when the company realizes that bringing the production back home would result in massive production costs (Piatanesi & Arauzo-Carod, 2019). By using nearshoring, companies can reduce the cultural, linguistic, and geographical distance while taking advantage of lower transportation and labor costs, tax breaks, improved coordination, quicker reaction to market changes, a faster response rate to customer preferences, and geographical and cultural proximity to the final customers (Stentoft et al., 2016).

2.6 The Balkan Context

The Western Balkans, consisting of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia, is a dynamic and constantly evolving region that is getting closer to European Union integration. The region faced various conflicts in the past and restructured into a market economy after being a part of a socialist regime for many decades (Estrin & Uvalic, 2016). Over the last two decades, the majority of the economies present in the region have shown moderate growth, spearheaded by liberalization of trade, privatization, and the slow accession process to the EU. Despite many structural vulnerabilities, such as youth unemployment, emigration, and uneven separation of wealth and development, the region still holds a strategic geographical position that enhances its relevance within the European economic agenda (World Bank, 2023).

Currently, it would be fair to claim that the Western Balkans is gradually increasing its ties with the European Union. More than 70% of the region's exports go to EU member states, and the EU remains as the largest investor and trading partner for every Western Balkan country (European Commission, 2023). There are a few factors that make the Western Balkans a competitive choice for EU investments and a potential nearshoring location: low labor costs, closeness to the European markets, and a gradually improving business climate can be considered as the region's biggest advantages. However, the weak infrastructure, corruption, issues in governance, and low operational capacity weaken the region's attractiveness and bring down the region's potential to become a nearshoring destination (OECD, 2023). Last but not least, participation in global value chains (GVCs) remains limited to specific sectors, with some states more involved in manufacturing, textiles, and automotive supply chains (UNCTAD, 2023).

Foreign Direct Investment (FDI) plays a crucial role in the region's integration into the global economy. According to UNCTAD (2023), the Western Balkans received over $10 billion in FDI in 2022, with Serbia alone accounting for approximately half of these inflows. The main industries that attract investments are automotive, manufacturing, ICT, energy, and real estate. The EU-funded investments and projects, and various financial institutions such as the EIB and EBRD, help promote infrastructure improvements, sustainability, and SME development. The EU accession journey acts as the main actor for reforms and investor confidence. However, the development progress of the region is curbed due to political uncertainties and underdeveloped physical and digital infrastructure (EBRD, 2023).

Table 1: FDI in Western Balkans (2022-2023)

Country	FDI Inflows (USD billion)	FDI as % of GDP	% Exports to EU	to EU GVC Integration	Economic Role
Serbia	5.0	7.2%	65%	Moderate (ICT, Auto)	Regional production hub
North Macedonia	1.3	7.0%	81%	High (Textiles, Auto)	Assembly & processing
Bosnia & Herzegovina	0.7	3.2%	73%	Low to moderate	Resource-based exports
Albania	1.0	7.1%	76%	Low	Energy, raw material base
Kosovo	0.6	6.7%	45%	Low	Remittance-driven economy
Montenegro	0.5	11.3%	42%	Low	Tourism, real estate

Sources: UNCTAD (2023); OECD (2023); and Vienna Institute (2023).

Regional initiatives such as the Common Regional Market (CRM) and the Berlin Process play an important role in integrating the Western Balkans into the global supply chain, starting with the EU market, improving the process standards and connectivity of the region to attract more foreign capital. Despite the visible results, the region still lacks innovation, export diversification, and logistics performance compared to other EU countries. Nevertheless, the Western Balkans' role as a nearshoring destination is becoming more prominent due to new dynamics of global trade, post-COVID-induced supply chain shocks, and the EU's current economic and political agenda (Vienna Institute for International Economic Studies, 2023).

Most recent studies emphasize the alignment of nearshoring initiatives in the Western Balkans with global decarbonization trends. There is significant growth in manufacturing investment in Bosnia and Herzegovina, Kosovo, and North Macedonia between 2020 and 2023, driven by a dual focus on mitigating carbon footprints and leveraging proximity to European markets. Companies from Asia, particularly those in the technology and automotive sectors, are using the Western Balkans region as a strategic base to shorten supply chains and achieve sustainability targets (Vienna Institute for International Economic Studies, 2023). These recent developments point out how sustainability goals are modifying nearshoring dynamics, further boosting the region's appeal as a strategic supply chain hub.

3 CURRENT STATUS OF GLOBAL SUPPLY CHAINS

The COVID-19 pandemic has led to unprecedented disruptions in global supply chains. Recently, the president of the European Union Chamber of Commerce in China, Jörg Wuttke, said, “China is not the stable sourcing destination that it used to be” (Yang & Mitchell, 2022). Due to COVID-19 and the price increase in sea freight rates, the number of freight shipments from China to the EU declined in parallel (Placek, 2022). Another reason that disrupted global supply chains and continues to do so is the conflict between Ukraine and Russia. Due to the ongoing war, global supply chains, especially the trade regarding food, have been highly impacted (Jagtap et al., 2022).

The COVID-19 pandemic exposed the fragile nature of global supply chains. This unexpected event led to unexpected closures of manufacturing and distribution facilities and labor shortages (World Economic Forum, 2023). These unexpected delays led to accelerated structural changes in global supply chains. Greater flexibility and resilience became a crucial necessity for better operating global supply chains (Baldwin & Freeman, 2021).

The World Economic Forum report from the previous year sheds light on the importance of investing in global supply chains with the goal of making global supply chains more flexible and increasing overall resilience. The report claims that COVID-19 presented a unique predicament where it was possible to observe how global supply chains responded to stressful situations (World Economic Forum, 2023). A McKinsey survey from 2023 shows that 90% of companies plan some degree of regionalization over the next three years to lower risks and improve their supply chain resilience (McKinsey & Company, 2023).

Improving sustainability in order to improve global supply chain resilience has gained more prominence in the aftermath of COVID-19. A recent study conducted by the Vienna Institute for International Economic Studies highlights that various industries in the Western Balkans are adopting decarbonization practices as part of their growth strategies. For instance, renewable energy projects in North Macedonia and Bosnia and Herzegovina have improved the region’s appeal for nearshoring while supporting local manufacturing. These practices follow the global trend of integrating sustainability into supply chain strategies to reduce risks and achieve long-term supply chain resilience. Moreover, this increased focus on mitigating carbon footprints has driven European companies to pursue nearshoring opportunities closer to home. This shift is noticeable in industries like manufacturing and ICT, where companies prioritize proximity and sustainability to ensure stable operations during disruptions (Vienna Institute for International Economic Studies, 2023).

Supply chain resilience has become a priority in the wake of recent disruptions. Strategies such as nearshoring and diversification are increasingly being adopted by European companies to mitigate risks. The Western Balkans offer a strategic advantage due to their proximity to Europe and potential for infrastructure development (European Parliament, Directorate-General for External Policies of the Union, Essletzbichler, Pintar, & Grumiller, 2021). An EY report from 2023 supports the findings of the World Economic Forum and the McKinsey survey from 2023. EY claims that the COVID-19 pandemic accelerated and highlighted the vulnerabilities of global supply chains. The report also claims that companies are increasing their investments in global supply chain technologies like analytics, robotic process automation, and even AI to improve resilience and flexibility (EY, 2023). MacCarthy & Ivanov support these reports, claiming that digital technologies play a crucial role in improving global supply chain resilience by providing real-time visibility, predictability, and automation capabilities (MacCarthy & Ivanov, 2022). The COVID-19 pandemic exposed the weaknesses of global supply chains, highlighting the necessity to shift towards more resilient and flexible global supply chain networks (Ivanov & Dolgui, 2020). The trend of moving production from the EU to China and the foreign direct investments from European companies continued for a while (Vanham, 2012). The unprecedented pandemic increased transportation costs and caused new bottlenecks and shortages in supply chains (Zavarska, 2022).

Foreign direct investments (FDIs) in the Western Balkans play an important role in the economy and have been substantial thanks to the policy incentives and economic reforms implemented by Western Balkan governments. However, challenges such as corruption, regulatory issues, and political instability continue to have a negative impact. Serbia has been the leading destination for FDIs in the region and continues to benefit from a competitive economic environment and policy initiatives (Marjanović & Đukić, 2020).

The economic impact of COVID-19 has also been significant, revealing the vulnerabilities of global supply chains and highlighting the importance of diversification and resilience. According to McKinsey, the COVID-19 pandemic led to unprecedented disruptions on a global scale, forcing companies to reassess their global supply chain strategies and invest in regionalization to improve resilience and be prepared for future shocks (McKinsey, 2023). The World Bank supports this claim, indicating that the COVID-19 pandemic has highlighted the need for more robust and adaptable supply chains to increase preparedness for future predicaments (World Bank, 2022).

Foreign direct investments (FDIs) have been seen as a crucial element in the economic recovery and growth of the Western Balkans. The region's strategic location and potential for economic development make it an attractive destination for European companies seeking to diversify their supply chains and reduce dependency on non-EU countries. According to a UNCTAD 2023 report, FDI inflows to the Western Balkans reached $10 billion in 2022, with Serbia being the hub for 50% of these investments, mainly in the manufacturing and technology sectors (UNCTAD, 2023). The European Commission’s insights regarding the Western Balkans support the fact that the region is receiving increasing investments in renewable energy and digital infrastructure. These investments are spearheaded by both EU funding and private sector initiatives. The European Commission expects that these investments will increase the region’s economic resilience and integration into global supply chains (European Commission, 2023).

Another study that provides important information regarding the disrupted global supply chains is conducted by Automotive News. According to the study, companies like Volkswagen and BMW had to stop their production due to a shortage of essential parts, forcing them to diversify suppliers and increase inventory levels to prevent future issues (Automotive News, 2023).

The region's economic policies and reforms are aimed at attracting more FDI by focusing on sectors such as manufacturing, logistics, and technology. These efforts are essential for enhancing the region's supply chain resilience and integration into the global economy. Due to the disruptions that occurred in global supply chains, average rates for container shipping increased eightfold (World Economic Forum, 2023). According to the World Bank, the Western Balkans present various advantages for nearshoring initiatives such as lower labor costs, cultural and geographical proximity to the EU, and ongoing infrastructure and regulatory framework investments (World Bank, 2023). These issues with infrastructure, regulatory quality, and governance should be addressed and put in a framework of continuous improvement (Estrin & Uvalic, 2016).

3.1 Political Debate Regarding the Current Global Supply Chains

The conflict between Ukraine and Russia has led to further disruption of global supply chains. One of the key reasons behind this is the halting of cargo bookings coming from Russia (Kalish & Lennert, 2022). Reduced efficiency in transportation resulted in the slowing of global supply chains. This has prompted European companies to search for alternatives because they consider backshoring as the last option for resolving supply chain issues (Jovanovic & Ghodsi, 2021). Corporate Vice President at Intel, Bruce Andrews, talks about this issue: "For Intel, the conflict has served as 'a real stark reminder of the need to make sure, both in terms of how we run our company and how we sell things, that we really do look to have resiliency and redundancy'" (McKinsey, 2023). Aside from the Russia-Ukraine conflict, the COVID-19 pandemic also played a big role in highlighting the fragility of complex global supply chains that rely on the undisturbed transfer of goods. The pandemic led companies to rethink their global supply chain strategies (CSIS, 2022).

Because of the Russia-Ukraine conflict and the COVID-19 pandemic, the concept of "friend-shoring" has gained traction as a strategy to enhance supply chain resilience by prioritizing trade relationships with allied countries and those with similar values. This approach helps mitigate risks associated with geopolitical tensions and economic instability in less stable regions. "Friend-shoring is a strategy where countries prioritize trade with allies and countries with similar values to enhance supply chain resilience (McKinsey, 2023).

Another variable that adds complexity to the political discourse in the Western Balkans is Russia's strategic interests in the region. Russia's efforts include maintaining influence over the region through economic investments and political alliances. This dynamic creates a complex environment for Western investments and nearshoring initiatives. The ongoing geopolitical tension between Russia and the EU impacts the economic stability and investment climate in the Western Balkans. A report published by Deloitte back in 2023 sheds light on this predicament: "Russia has a strategic interest in the Western Balkans that is composed of maintaining influence over the region through economic investments and diplomatic alliances. This political approach fosters a complex dynamic environment for Western investments and the nearshoring initiatives" (Deloitte, 2023).

All these geopolitical tensions highlight the importance of supply chain resilience. However, for the EU, a resilient supply chain also means it's sustainable. A recent report touches on the significance of integrating sustainability practices into supply chain strategies, with the Western Balkans region positioned as a potential nearshoring destination for European companies looking for ways to diversify amid geopolitical risks. Decarbonization initiatives, particularly in the renewable energy sector, provide the Western Balkans an opportunity to strengthen their position in global supply chains while being part of the EU's Green Deal objectives (Transforming the Western Balkans, 2023). Moreover, the Western Balkans' potential for integrating sustainability practices into its infrastructure and logistics system aligns with the current global trends regarding sustainability. For example, renewable energy investments in Bosnia and Herzegovina and North Macedonia improved the Western Balkans' appeal for nearshoring initiatives by reducing supply chain vulnerabilities that stem from political instability (Jovanović, 2023). The World Economic Forum report in 2023 supports this point. According to the World Economic Forum, "Geopolitical tensions and economic sanctions are increasingly reshaping global supply chains, emphasizing the need for diversification and regionalization to enhance resilience" (World Economic Forum, 2023).

The Western Balkans do not only receive attention from the EU and Russia. The region can be identified as a geopolitical hotspot with significant interests from global powers like the EU and Russia, as well as China. This geopolitical context influences the region's economic policies and investment climate. Navigating the complex geopolitical landscape is crucial for the Western Balkans to achieve economic stability and attract investments (Western Balkans as Geopolitical Chessboard, 2020). China's Belt and Road Initiative includes several infrastructure projects in the Western Balkans, aimed at enhancing connectivity and trade routes between Europe and Asia (McKinsey, 2023). The Montenegro highway project, funded by Chinese loans, highlights the geopolitical tussle between the EU and China for influence in the region (Reuters, 2023).

Overall, geopolitical tensions are increasingly influencing global supply chains and forcing companies to consider political stability as an important factor when assessing their current global supply chain strategies (Lasserre, 2022).

3.2 Role of the Western Balkans Regarding Global Supply Chains

The Western Balkans have historically been at the periphery of global supply chains, primarily serving as a region of low-cost production and assembly for European companies. However, this role is evolving as the region seeks to integrate more deeply into global supply chains by improving infrastructure, governance, and workforce skills. These improvements require global investments, which are becoming a reality for the region. For instance, EIB Global invested €1.2 billion in the Western Balkans in 2023, aiming to mobilize over €6 billion of new investments in the region, hoping to accelerate connectivity, energy transition, and SME growth, in line with EU priorities (EIB, 2023).

These strategic investments in infrastructure and workforce development are essential for integrating the Western Balkans into global supply chains and improving regional economic stability (International Trade Centre, 2022). The Economic Investment Plan for the Balkans aims to spur long-term economic recovery, support a green and digital transition, and foster regional cooperation. Key areas of focus include energy, transport, and digital infrastructure.

The European Commission launched a new additional €2.1 billion investment package to support 14 investment flagships in transport, energy, environment, human capital, and private sector support in the Western Balkans (European Commission, 2023). The Western Balkans are increasingly seen as a strategic region for nearshoring due to their proximity to major European markets, competitive labor costs, and ongoing efforts to improve infrastructure and governance. The integration of the Western Balkans into the European Union's supply chains can provide resilience and flexibility to European businesses. Another investment package launched by the EU in 2023, totaling €3.2 billion, focused on 21 transport, digital, climate, and energy connectivity projects in the Western Balkans, aiming to improve regional trade, reduce travel times, and foster sustainable economic growth (European Commission, 2023). The textile and automotive sectors in North Macedonia and Serbia are increasingly integrating into European supply chains, driven by competitive labor costs and strategic location (McKinsey, 2023).

EIB investments also focus on the digital development of the Western Balkans region. Higher productivity and quality workforce development depend on broadband networks, software development, cybersecurity, and innovation, according to EIB (EIB, 2023). The automotive sector in the Western Balkans is becoming a critical part of European supply chains due to lower labor costs, strategic location & proximity, and continuous investments (ACEA, 2023). Volkswagen and BMW had to stop production due to a lack of essential parts, which led both companies to diversify their suppliers and expand inventory levels (Automotive News, 2023). German automotive supplier Bosch successfully established a manufacturing plant in Serbia, leveraging the country's skilled workforce and favorable investment climate (Development Agency of Serbia, 2023).

A McKinsey study done in 2020 claims that nearshoring can lead to significant cost savings and efficiency gains. However, it also requires investment in infrastructure and workforce development to fully seize its potential (McKinsey Global Institute, 2020). The Western Balkans is considered to have the potential to be a nearshoring location for European companies. Western Balkan countries are geographically close to European companies and provide lower labor costs and some tax benefits. The case for the Western Balkans becoming a nearshoring location for European companies has two sides: one regarding the region's current position in global supply chains and the other regarding how European companies perceive the Western Balkans. At this time, Balkan states are a short-to-mid-term supply chain solution for European companies that struggle with the disruptions happening in global supply chains. It is still unclear if the region will become a permanent nearshoring location or not (Jovanovic & Ghodsi, 2021). Being geographically close to European companies and having lower wages than other European countries play a significant role in this. A study by the OECD reports that the operational costs were much lower in Balkan countries compared to Poland in 2009 (OECD, 2009). The current data regarding wages in EU countries from Eurostat shows that this difference persists (Eurostat, 2023). The Vienna Institute for International Economic Studies claims that the Western Balkan economies can indeed benefit from nearshoring but would have to take the right policy steps in order to benefit fully. Focusing on building the competitive advantage of low labor costs alone may not be sufficient to attract more investment. Rather, the countries are recommended to focus on skilled labor, to invest in education and training, modernize their educational system and transport infrastructure, and improve governance (Vienna Institute for International Economic Studies, 2023).

As can be seen from the Vienna Institute for International Economic Studies report, for the Western Balkans to become a crucial part of global supply chains, multiple requirements need to be fulfilled. Cheap labor alone isn't enough for the Western Balkans to become a long-term supply chain location for European companies (Jovanović et al., 2021). The governments of the Balkan states have to take an active role in improving the quality of labor, strengthening the effectiveness of governance, improving the regulatory quality of the law, and enhancing the relationships between local and foreign companies, as well as between foreign companies and government institutions. The European Quality of Government Index 2021 (EQI), which measures an average European citizen's perception of government quality, shows that every Balkan country has a below-average score (European Commission, 2021).

Surveys conducted on German companies that invested and continue to invest in Balkan countries support the claims that Western Balkan countries fall short regarding education, government regulations, and production quality compared with more developed European countries. The three biggest challenges German companies face when working in the Western Balkans are poor governance, low quality of institutions, and the unavailability of a skilled workforce (Jovanović & Ghodsi, 2021). Surveys conducted with German companies reveal that these companies highly appreciate the cultural proximity found in the Western Balkans, as well as the positive interactions they have had with the Western Balkan people. In addition to hard factors, soft factors also play an important role in the investment decisions of German companies. Ultimately, Western Balkan people possess a key factor that is important for decision-makers in European companies (Vienna Institute for International Economic Studies, 2023).

The overall view is that the Western Balkans are considered to have significant potential for nearshoring. However, the Western Balkan countries still need to address infrastructural and regulatory challenges to realize their full potential (Essletzbichler, Pintar, & Grumiller, 2021). Additionally, it is essential to consider the role of sustainable practices in making the Western Balkans a viable nearshoring destination. Sustainable practices, such as adopting a circular economy and closed-loop supply chains, align with global trends toward sustainability and can provide a competitive edge. A recent study supports this claim, arguing that by adopting the necessary sustainability standards, such as the circular economy and closed-loop supply chains, the Western Balkans can become even more attractive to European Union companies, providing the region with a competitive edge as a global supply chain destination (Sustainable Supply Chain Management Trends in World Regions, 2022).

In addition to major issues such as infrastructure and regulatory differences, SMEs in the Western Balkans face additional barriers, including limited capacity to deliver higher quantity or quality products, restricted scalability, and reduced access to technological innovation. Addressing these issues is crucial for the Western Balkans to become an important nearshoring destination (Barriers that SMEs in the Western Balkans are Facing in Accessing the Supply Chains, 2020).

In conclusion, while the Western Balkans hold significant potential as a nearshoring destination for European companies, realizing this potential will require addressing several key challenges. These include improving governance, enhancing the quality of education and workforce skills, investing in infrastructure, and adopting sustainable supply chain practices.

4 METHODOLOGY

Chapter 4 is the outline of the methodological approach that is adapted in order to explore the nearshoring potential of the Western Balkans. Given the nature of this research, a qualitative approach seemed like the proper approach in order to capture the nuanced personal insights from the selected stakeholders. This chapter explains the research design, participant selection, data collection, and analysis methods to ensure a comprehensive framework in order to accomplish the research objectives. This approach was established due to the need to understand and delve into the region’s dynamics through the personal insights and perspectives of key informants, with the hope that the findings of the research would be both relevant and actionable.

This study's methodology cooperates with the latest research on nearshoring and decarbonization trends in the Western Balkans, such as the Vienna Institute's analysis of the Western Balkans, which utilizes both qualitative and quantitative methods. This research combines expert interviews with the current literature to evaluate the nearshoring potential of the Western Balkans, similar in approach to the Vienna Institute for International Economic Studies [wiiw], but smaller in scope.

4.1 Critical Overview of Policy Literature

Nearshoring dynamics in the Western Balkans are shaped by many different factors, the policy and political landscape being one of the most crucial ones. Policies implemented by local governments and the investments & reforms spearheaded by the EU initiatives, such as the Growth Plan and the Economic Investment Plan, help the region get more integrated into the EU's single market (European Commission, 2023; IAI, 2023). In addition, academic literature helps highlight the gaps between the policies and the implementation (Jovanović & Ghodsi, 2021; Vienna Institute for International Economic Studies, 2023). The EU's Economic Investment Plan targets the mobilization of €30 billion in public and private investment by 2030 to support connectivity, digital transition, and green transformation in the region (European Commission, 2023). Considering the size of the investment, it becomes imperative to conduct a thorough review of policy literature.

4.2 Method of Primary Data Collection: Interviews

The method of semi-structured interviews was chosen to explore the nuanced views of carefully chosen experts. This qualitative approach allowed the exploration of the nearshoring topic exhaustively, which led to the identification of various themes such as regional infrastructure, workforce readiness, and policy alignment. Semi-structured interviews are widely used in exploratory research due to their ability to maintain focus while allowing flexibility and depth in responses (Kvale & Brinkmann, 2009).

Purposive sampling was utilized to ensure that each participant was relevant to the research questions. This sampling method is proven to be effective in qualitative studies that aim to reach expert knowledge and insight into complex social and economic situations (Patton, 2002). A total of 10 participants from the academic, public, and private sectors were interviewed via Microsoft Teams, with each conversation lasting between 30 and 60 minutes and recorded for later analysis.

Each participant was reached out to individually via e-mail, and the purpose of the research was shared with a preview of some questions that would be asked during the interview.

After an interview was conducted, it was transcribed using an AI tool named TurboScribe to make it ready for thematic analysis, which involves identifying patterns and recurring themes across the interviews (Braun & Clarke, 2006). Each transcription was read thoroughly and coded manually. The identified codes were grouped under main themes based on their similarities and the frequency of occurrences. This method enables the opportunity to delve into the depth of the responses and build extracted meaning from the qualitative data in a structured and replicable way (Nowell et al., 2017).

4.2.1 Sampling

Participants were identified and then qualified using purposive sampling, a common method in qualitative research where potential participants are chosen based on their expertise and relevance to the research in question (Palinkas et al., 2015). To expand the participant pool, snowball sampling was also utilized. Initial participants recommended further contacts that have relevant expertise in nearshoring, supply chains, and regional economic development (Biernacki & Waldorf, 1981).

Participants were identified through professional networks within academia and through snowball sampling. A professional network within academia was used as the main source to identify and reach out to required individuals who have relevant experience regarding nearshoring, supply chains, regional development, and digital transformation in the Western Balkans. Using certain business tools such as LinkedIn Navigator and databases of various associations, a number of experts were approached and invited for an interview. The individuals who initially attended the first couple of interviews referred to additional participants, which helped expand the pool of participants (snowball sampling).

Invitations to participants were sent via email, which clearly outlined the purpose of the research, the significance of the participants' insights, and a suggested time & date for the interview. This systematic and targeted approach managed to capture a diverse range of perspectives from various Western Balkan countries.

The interview participants were purposively sampled based on their expertise on the region, their relevance to the research themes, and their ability to offer diverse perspectives. The selection process had the goal of including experts from academia, business, think tanks, chambers of commerce, and policymaking who were directly involved or had experience with the dynamics of nearshoring in the Western Balkans. Another goal of the selection was to ensure the representation of different countries within the Western Balkans by including participants from Serbia, North Macedonia, Bosnia and Herzegovina, Kosovo, and Albania.

Participants were categorized into three groups:

– Academics with expertise in economics, supply chains, regional development, EU Enlargement, sustainability, and regional politics.

- Business professionals operating in or evaluating the Western Balkans as a nearshoring destination. Expertise in manufacturing, digital transformation and sustainability.
- Policymakers, member of chambers of commerce and consultants familiar with investment, initiatives and trade dynamics in the region.

This approach of choosing a diverse pool of participants and utilising semi-structured interviews ensured a comprehensive understanding of the Western Balkans' strengths, challenges, and potential as a nearshoring hub for EU companies. This diversity was further enhanced by including experts in various roles and experiences across multiple sectors such as ICT, automotive, and manufacturing.

A pool of general questions that delve into the nearshoring potential of the Western Balkans was created, which led to the emergence of certain main themes such as Infrastructure and Connectivity, Workforce Dynamics, Regulatory Environment, and Success Stories & Lessons Learned. The pool of questions is presented in the Appendices section.

Table 2: Interviewees profile

Name & Country	Position	Area of expertise	Topics discussed	Reason for Selection
Marko Jukić (Bosnia and Herzegovina)	CEO	Logistics	Supply chain management, workforce dynamics, multinational partnerships	Marko Jukić (Bosnia and Herzegovina). Marko's direct experience in supply chain management and multinational partnerships made him a great participant to interview.
Radman Šelmić (Serbia)	Researcher /Academic	Supply Chain, ICT	Workforce dynamics, ICT and automotive sectors, comparative advantages	Radman's academic background provided insights into Serbia's comparative advantages, particularly its ICT and automotive sectors proved to be very valuable in discussing workforce dynamics.

to be continued

Table 2: Interviewees profile (cont.)

Name & Country	Position	Area of expertise	Topics discussed	Reason for Selection
Branimir Jovanovic (Serbia/Regional)	Economist/Scholar	Regional Cooperation	Policy impacts, regional advantages, economic development	Highly knowledgeable Branimir Jovanovic's scholarly perspective added depth to the analysis of Serbia's regional advantages and challenges, emphasizing policy and regional cooperation.
Expert from Kosovo	Infrastructure Analyst	Infrastructure, Workforce	Emerging nearshoring hubs, infrastructure gaps, workforce development	An infrastructure analyst from Kosovo who is working for a German company provided insights into Kosovo's emerging role as a nearshoring hub, discussing infrastructure gaps, international partnerships, and workforce development.
Sophia Kluge	Regional Development Expert	Trade and Specialization	Regional trade agreements, sectoral specialization, economic potential	Sophia's expertise in regional development provided a broad view of nearshoring opportunities and challenges, emphasizing trade agreements and sectoral specialization.
Antje Wandelt (North Macedonia)	Workforce Expert	Workforce Dynamics	Dual education, policy reforms, labor market readiness	Antje focused on workforce readiness and dual education's role in meeting industry demands. She provided insights into how policy reforms could further attract investments.
Zoran Nechev (Regional)	Policy Expert	EU Integration, Policy	Political stability, regulatory alignment, EU integration	Zoran Nechev's expertise in policy and EU integration provided context for external factors impacting nearshoring dynamics, particularly EU alignment and political stability.

to be continued

Table 2: Interviewees profile (cont.)

Name & Country	Position	Area of expertise	Topics discussed	Reason for Selection
Albania	Industrial Policy Advisor	Policy Design	Incentive frameworks, foreign investment, industrial modernization	An industrial policy advisor from Albania contributed a government-facing perspective on how policy frameworks are used to attract foreign investment.
North Macedonia	Private Sector	Manufacturing Strategy	SME integration, supply chain readiness, regulatory navigation	Provided ground-level insights on the country's readiness to integrate local SMEs into European supply chains.
Montenegro	Economic Development Expert	Digital Infrastructure, Digitilization	Connectivity challenges, brain drain, investment climate	Limited digital infrastructure and talent retention

Source: Own Work

4.2.2 Interviews

To explore the insights of participants whose expertise is established thanks to their long-lasting academic, corporate, or institutional career, the semi-structured interview method was chosen as the main research method. Semi-structured interviews were chosen as they allow for flexibility while maintaining focus on key themes (Kvale & Brinkmann, 2009). This qualitative approach allowed us to identify themes such as regional infrastructure, workforce readiness, and policy alignment. A total of 10 participants from the academic, public, and private sectors were interviewed via Microsoft Teams, and each conversation was recorded for later analysis. All of the participants were qualified beforehand through a purposive sampling method to ensure their relevancy to the research in question. In addition, each participant's consent was taken to record the interviews and use the findings in the research.

The data was analysed using thematic coding, which required thoroughly viewing the videos of recorded interviews and writing down the themes that emerged. Additionally, as a point of reference, each video was transcribed using an AI tool called TurboScribe.

4.2.3 Interview Design

The interview design is semi-structured at its core, which allows participants the freedom of sharing their insights, personal experiences while maintaining the consistency of the study's focused theme.

These questions provided a structured framework for the interviews, while the semi-structured nature allowed for follow-up questions to delve into subtopics and gather personal insights.

To capture nuanced perspectives, experiences, and personal insights, additional or specific questions tailored to each participant's expertise were included in the interviews. Additional and participant-specific questions are presented in the Appendices section of the research. However, the reasoning for the selection of the current participants is briefly mentioned. There were ten participants, seven of whom gave consent to use their names and quotes to provide insight into the research. Finally, two other participants provided a short commentary on the general question pool prepared for the specific research.

4.3 Data Analysis

The interviews were conducted following a pre-designated approach. The interviews followed a structured yet flexible qualitative approach thanks to general and participant-specific questions pool. Semi-structured interviews, as commonly used in qualitative research, allow for depth while maintaining thematic consistency (Kvale & Brinkmann, 2009).

4.3.1 Post-Interview Process

The post-interview process was conducted in order to validate the accuracy and depth of the data: The sections of the post-interview process are mentioned below:

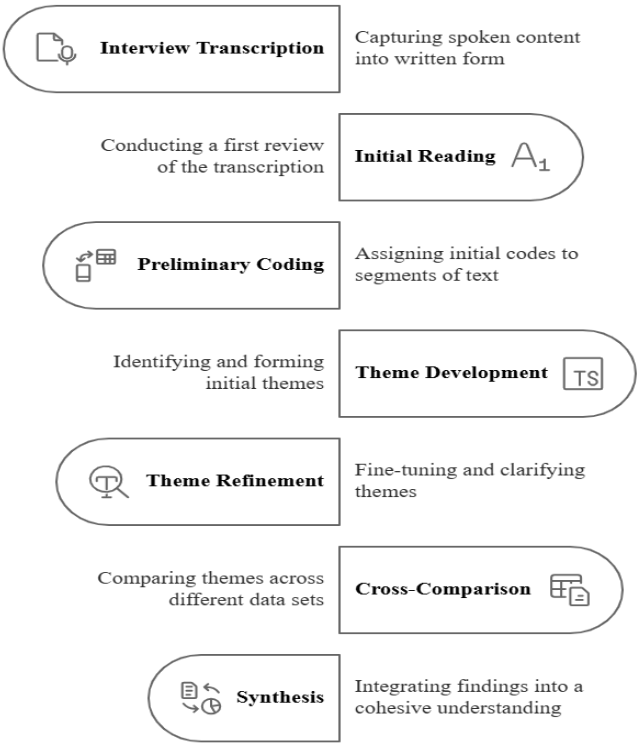
- Transcription: The first step of the post-interview process is transcribing the recorded interviews to maintain the accuracy of participants' responses and use it for in-depth analysis. Even though the coding was mainly done via viewing the recorded videos multiple times, as a point of reference, the recorded videos were transcribed using an AI tool called TurboScribe.
- Coding and Analysis: Microsoft Teams platform helps recording and storaging videos, which streamlines the coding and the analysis process. Each video was analysed in-depth to identify recurring themes, insights and then all of these were categorized into main themes, which were; Opportunities and Investments, Challenges and Barriers, Regional Advantages, and more.
- Confidentiality: All the meeting data were recorded into Microsoft Cloud and stored there. Eight out of ten participants gave their consent for their names and quotes to be shared in the study. The remaining two consented their quotes to be used in an anonymous manner.

4.3.2 Thematic Analysis

Thematic Analysis, outlined by Braun and Clarke (2006), was utilized in order to analyse the primary data. According to Braun and Clarke, this method includes six phases: familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining/naming themes, and writing up. Recurring ideas were grouped into thematic categories using manual coding and memo writing.

The whole Coding Process is shown as a figure below:

Figure 8: Coding Process



Source: Based on Braun and Clarke (2006)

4.4 Ethical Considerations

One of the integral parts of the research process was the ethical considerations. Informed consent was acquired from all participants, and all the participants were briefed about the purpose of the study and the intention behind the interviews. Last but not least. Consent for using their names and quotes from the interview was obtained from all participants. Verbal consent to record the interviews, share the name of the experts, and their quotes was taken at the beginning of the recording and at the end of the interview as well.

4.5 Validity and Reliability

To ensure the validity and reliability of the research, several measures were taken. Data triangulation and cross-referencing interview findings with secondary research, such as academic studies, articles, and industry reports, were deployed. With the help of participant validation, participants were able to review their contributions and confirm the accuracy of their interpretations. In addition, a fully transparent document process was followed, giving in-depth details of each step utilized, starting from the participant selection to data analysis. These systematic and transparent methods enhanced the credibility of the data that was collected, minimized potential biases, and allowed the findings to be reflective of the participants' insights and perspectives in alignment with the research objectives.

The measures taken are mentioned below:

- Data Triangulation: Data triangulation played a crucial role when cross-referencing the academic studies, articles, and industry reports with the interviews conducted. Triangulation method improves the credibility and the validity of qualitative research by integrating multiple data sources (Denzin, 1978; Patton, 1999).
- Participant Validation: The general findings were shared with the participants and also their constent were taken for sharing their quotes while using their names. Participant Validation is a key method to improve the trustworthiness of qualitative research by validating the accuracy of the findings with the participants' themselves (Lincoln & Guba, 1985).
- Transparent Documentation: The research process was structured from the beginning. The participant selection process, which consisted of personal research, references from an academic advisor, and snow-ball referencing after the initial interview was conducted. Each in interview were recorded, all the participants except two, consented to their names and quotes being used in the research. Transparent and structured documentation of interviews aids the confirmability and dependability of qualitative research (Shenton, 2004; Yin, 2018).

These measures cemented that the research findings were both accurate and reflective of the participants' personal insights and perspectives.

5 INSIGHTS FROM POLICY LITERATURE

5.1 The Evolving Political Landscape and the Integration of the Western Balkans into the Global Supply Chain

Following its ongoing initiatives, the European Commission creates a new growth plan for the Western Balkans. The latest Growth Plan for the Western Balkans proposed by the European Commission has a four-pillar structure: "enhancing economic integration with the

EU Single Market, boosting regional economic integration, accelerating fundamental reforms, and increasing pre-accession funds. This plan aims to double the size of the Western Balkan economies within the next decade" (IAI, 2023). The Western Balkans are increasingly seen as a strategic region for nearshoring due to their proximity to major European markets, competitive labor costs, and ongoing efforts to improve infrastructure and governance. The integration of the Western Balkans into the European Union's supply chains can provide resilience and flexibility to European businesses. One of several investment packages issued by the EU, valued at €3.2 billion, supports 21 transport, digital, climate, and energy connectivity projects in the Western Balkans, aiming to improve regional trade, mitigate travel times, and foster sustainable economic growth (European Commission, 2023). This investment package displays the ongoing support from the EU to increase the necessary sustainable growth for the region. A recent McKinsey report sheds light on some of these projects that are initiated by the EU. For instance, the report claims that the textile and automotive sectors in North Macedonia and Serbia are increasingly integrating into European supply chains, driven by competitive labor costs and strategic location (McKinsey, 2023).

Even though the infrastructure still remains the main concern for the region, the digital development of the Western Balkans region is also deemed crucial. Various Western Balkan states receive investments focused on improving broadband networks, software development, cybersecurity, and innovation to ensure competitive environments and higher productivity among the workforces (EIB, 2023).

5.2 Reports on the Views and Experiences of European Companies that Invest in the Western Balkans

Surveys conducted on German companies that invested and continue to invest in Balkan countries support the claims that Western Balkan countries fall short regarding education, government regulations, and production quality when compared with more developed European countries. The three biggest challenges the German companies face when working in the Western Balkans are poor governance, low quality of institutions, and the unavailability of a skilled workforce (Jovanovic & Ghodsi, 2021).

Regardless, the Western Balkans is a strategic asset for the European Union, especially since European companies are looking for new ways to relocate their supply chains closer to Europe and diversify their suppliers overall. Any investment in the Western Balkans for the production of important goods would contribute to the EU’s strategic initiative for economic autonomy, which is one of the key points in the EU’s newly published European Economic Security Strategy (Atlantic Council, 2023). Being aware of this, European companies have increased their investments in the region and noted that while the Western Balkans offer competitive labor costs, significant improvements in infrastructure and regulatory frameworks are necessary to fully capitalize on the region's potential. Successful investments have often involved close collaboration with local governments to address these challenges (Jovanović, 2020).

To further solidify the Western Balkans as a nearshoring destination, strategic measures are necessary to address barriers faced by SMEs in accessing supply chains. A key solution that is advised is fostering collaboration between multinational corporations and local SMEs to create opportunities for knowledge-sharing and enhancing innovation capacity, addressing scalability and market access challenges (Transforming the Western Balkans, 2023). Such initiatives could involve mentorship programs, joint ventures, and technology transfers, creating a robust ecosystem for supply chain integration. The EU's Western Balkans Investment Framework and the EIB Global investment initiatives, such as the €1.2 billion invested in 2023, aim to enhance infrastructural connectivity, energy transition, and SME growth in the Western Balkans. These investments play an important role in the accession process of the EU and improving the business environment in the Western Balkans (EIB, 2023).

Another important issue that needs addressing for the Western Balkans to solidify its position as a possible nearshoring destination for EU companies is its alignment with EU decarbonization goals. This can be deemed as a big opportunity for the Western Balkans to receive more future investments and catch up to the global sustainability trends. This could be achieved by encouraging sustainable practices across SMEs and integrating renewable energy solutions into industrial operations (Transforming the Western Balkans, 2023). These measures align with EU initiatives such as the Green Deal and enhance the attractiveness of the region for European businesses prioritizing sustainability in supply chains. The same research touches on another area that requires focused investment, which is the workforce. Investments in workforce development are critical. The region suffers from skill shortages that are linked to certain specific industries. The introduction of sector-specific training programs and the modernization of educational institutions can address the skill shortages identified by European investors. Emphasizing vocational training and aligning curricula with industry needs would significantly increase the region's human capital competitiveness (Transforming the Western Balkans, 2023).

Regardless of shortcomings, according to surveys, German companies very much appreciate the cultural proximity they find in the Western Balkans, as well as the positive experiences they have had with people from the region. Soft factors turned out to be just as decisive for investment decisions as hard facts and represent a key strength for the Western Balkans. Economic chambers such as the Western Balkans 6 Chamber Investment Forum also play an important role in attracting investments into the region. WB6 CIF actively promotes the region as a unified investment destination, trying to enhance the local and regional investment environment in order to facilitate investment that would generate economic development and more job opportunities. These active efforts are also supported by various European and international institutions to improve the efficiency of these initiatives (WB6 CIF, 2024). A more recent initiative, like the Common Regional Market Action Pla,n aims to integrate the Western Balkans' economies more closely with the EU Single Market by the year 2024. This initiative focuses on the free movement of goods, services, capital, and people, aligning investment laws with EU standards, and also integrating into the digital market (Tirana Observatory, 2023). This kind of integration might improve the cultural proximity even further.

5.3 Requirements that Need to Be Fulfilled for Western Balkans to Be a Reliable Choice When It Comes to Nearshoring

Cheap labor alone isn't enough for the Western Balkans to become a long-term supply chain location for European companies (Jovanović et al., 2021). The governments of the Balkan states have to take an active role in improving the quality of labor, strengthening the effectiveness of governance, improving the regulatory quality of the law, and improving the relations between local and foreign companies and the relations between foreign companies and government institutions. Various barriers need to be addressed. Most common of these barriers are: limited capacity to deliver the potentially increased amount or quality, challenges related to scalability and reaction to unstable demand, SMEs often having restricted access to innovation, which affects the quality of work and deliverables, late payments that cause the bankruptcy of thousands of SMEs each year across Europe (Western Balkans 6 Chamber Investment Forum, 2020).

Another requirement that needs to be addressed is sustainability. Sustainable practices such as circular economy and closed-loop supply chains can further enhance the region's attractiveness. Additionally, adopting advanced technologies like big data and IoT, and fostering collaboration and flexibility in supply chain operations, are essential to make the Western Balkans a viable nearshoring destination (Altax, 2022). To further enhance its nearshoring appeal, the Western Balkans must align its economic development with decarbonization and green growth objectives. Green investments can be considered as one of the key requirements to increase the region's competitiveness for receiving investments and becoming a long-lasting nearshoring destination. Green investments, particularly in renewable energy and sustainable transport infrastructure, offer a dual advantage: mitigating the environmental footprint of supply chain activities while simultaneously increasing the chances of receiving further investments from the EU (Transforming the Western Balkans, 2023). This alignment not only supports EU Green Deal objectives but also attracts companies that prioritize sustainability in their global supply chain strategies.

The studies indicate that the Western Balkans can be a natural first choice for nearshoring due to geographical proximity, knowledge of the region, and relatively low costs. However, factors like governance, functional institutions, good infrastructure, and availability of skilled labor require addressing for the region to cement its role as a possible long-lasting nearshoring destination (Jovanović & Ghodsi, 2021). Atlantic Council supports this claim. According to their study in 2023, they claim that the Western Balkan economies can indeed benefit from nearshoring but would have to take the right policy steps in order to benefit fully. Building on the competitive advantage of low labor costs alone may not be sufficient to attract more investment. Rather, the countries are advised to focus on skilled labor, to invest in education and training, modernize their educational system and transport infrastructure, and improve governance (Atlantic Council, 2023).

Another report done by Emerging Europe supports these claims. According to Emerging Europe, for an optimal outcome, the Western Balkan states must improve governance, education, and transportation infrastructure. The Western Balkans need to improve their business environment by addressing corruption, ensuring political stability, and improving the regulatory frameworks required to attract and retain foreign direct investment (FDI) (Emerging Europe, 2021).

Aside from sustainability, another topic that surfaces as a point of discussion for improving the chances of the Western Balkans' position as a nearshoring destination is the status of the digital structure in the region. In addition to enhancing sustainability, the Western Balkans must also focus on improving their digital infrastructure, since technological advancements are essential for efficient and resilient supply chain operations. To achieve this, investments in broadband networks, software development, cybersecurity, and innovation are crucial to ensure competitiveness and higher productivity (WB6 CIF, 2021). Additionally, fostering public-private partnerships can play a critical role in addressing existing barriers. For instance, collaborative initiatives between governments, SMEs, and multinational corporations can help scale innovation, improve access to finance, and develop sector-specific skills that align with market demands (Transforming the Western Balkans, 2023). Such partnerships could mitigate challenges such as restricted access to innovation and limited scalability that currently hinder SMEs in the region. Using these partnerships, the companies can improve their digitization and streamline their operations.

The table below showcases the key documents that address the requirements mentioned above.

Table 3: Key Policy Documents

Document Name	**Importance**	**Western Balkans as a Nearshoring Prospect**	**The Challenges of Becoming a Nearshoring Prospect**
Getting stronger after COVID-19: Nearshoring potential in the Western Balkans. wiiw Research Report, No. 453. The Vienna Institute for International Economic Studies (wiiw).	This is one of the first comprehensive studies that delves into the region's nearshoring dynamics.	The study claims due to the Covid-19 pandemic, companies located in the EU are seeking to diversify their supply chain options and Western Balkans are one of the main locations.	The main challenges mentioned in this study are; infrastructure, administrative hurdles, and corroption within the governments in the Western Balkans.
Transforming the Western Balkans through Nearshoring and Decarbonisation - WB6 CIF	This documents gives crucial insight regarding how to transform Western Balkans into an investment location through nearshoring	The study claims that Western Balkans have the potential to become a nearshoring destination for the EU companies. However, certain implemtations that guide the region to EU sustanibility standarts are important.	The challenges that are mentioned on the wiiw Research Report, No. 453. The Vienna Institute for International Economic Studies (wiiw) is shared here as well. In addition, there is a stron emphasis on the region having to push sustainability initatives to become a long-lasting nearshoring destination for the EU.
European Commission. (2023). Supporting investment projects in the Western Balkans.	This is an official report by the European Commission giving in-depth insight to current and forecasted investments into the Western Balkans region.	The main topic of this report and the goal of the investments are highlighted as integrating Western Balkans into EU's single market.	The challenges mentioned in this report mostly focuses on governmental hurdles such as corruption, lack of transparency and the slowness of reform implementations.
European Commission (2023). Growth Plan for the Western Balkans	This growth plan aims to double the Western Balkans economy in a decade through EU single market integration	This document positions Western Balkans as a nearshoring hub by promoting economic integration and enhanced investment environment.	Highlights the need for improved governance, regulatory standards, and skills development.

Source: Own work.

6 INSIGHTS FROM INTERVIEWS

The findings from the interviews offer valuable insights into the current state and the future potential of the Western Balkans. This chapter focuses on exploring the main themes that emerged from the qualitative data gathered, providing an interpretation of participants' responses by utilizing quotes from the interviews. The chapter discusses both the common points and the contrasts in perspectives, focusing on infrastructure, workforce dynamics, regulatory environments, and success stories. These findings are supported and contextualized within the framework that is established in the literature review. Secondary research highlights key factors that shape the Western Balkans' attractiveness for nearshoring.

To effectively analyse the data collected from the literature review, it has been categorized into unique themes that encapsulate the main aspects of the nearshoring potential of the Western Balkans. This theme-based categorization was significant in organizing the findings, highlighting applicable insights, and addressing the shortcomings in the region's nearshoring potential.

The next section delves into the main themes identified, providing detailed insights into the opportunities and challenges faced by the Western Balkans.

6.1 Findings and Analysis

Preliminary findings from the semi-structured interviews helped obtain early insight into the research topic in question. These findings from the interviews paved the way for the coding structure and created a foundation for the analysis, which is presented in the results chapter.

Using a thematic coding system, findings were categorized into Main Themes, Sub-themes, and Cross-Cutting Themes. Main Themes cover the most crucial requirements that need addressing. These themes surface in the literature review and during all the expert interviews. Sub-themes, on the other hand, help in detailing these crucial requirements by creating sub-categories.

Finally, Cross-Cutting Themes help cover topics that are present in the literature and interviews as well, but don't receive as much attention as the Main-Themes. However, since they still hold relevance to certain parts of the Main Themes, including them in the interview findings might prove helpful. To visualize and explain the themes in a simpler manner, tables including these themes are presented below:

Table 4: Main Themes

Main Theme	Sub-Themes	Participant Quotes
Infrastructure and Connectivity	Logistics Networks, Energy Infrastructure	"Serbia's highway network is the best in the region." - Zoran Nechev "The lack of rail and road connectivity in certain areas delays shipments and increases our costs. Better infrastructure would make cooperation with European clients much smoother." - Marko Jukić "Strategic infrastructure investment is essential—not just for economic growth, but for integrating the Western Balkans into European supply chains efficiently." - Branimir Jovanovic

to be continued

Table 4: Main Themes (cont.)

Main Theme	Sub-Themes	Participant Quotes
Workforce Dynamics	Brain Drain, Skills Alignment	"The workforce is well-educated but brain drain poses a risk." - Branimir Jovanovic "We have a young and motivated workforce, but there's still a mismatch between what the market needs and what our education system delivers." - Radman Šelmić "Workforce development is key—without targeted training and upskilling, the region won't be able to support high-value nearshoring." - Sophia Kluge
Regulatory and Political Environment	Regulatory Issues, Local Governance Issues	"The lack of transparency in state aid could deter investments." - Zoran Nechev "Navigating local bureaucracy is one of the most frustrating aspects of doing business here—permits and regulations are often unclear and slow-moving." - Marko Jukić "While reforms are underway, the perception of political instability still influences how European companies view investment opportunities in the region." - Sophia Kluge
Success Stories and Lessons Learned	Partnership Outcomes, Industry-Specific Achievements	"Collaboration with EU firms has improved efficiency." - Marko Jukić "Serbia's ICT success story shows that with the right investment in education and infrastructure, the region can absolutely compete on a global scale." - Sophia Kluge "The dual education system introduced through German cooperation has been a game-changer for workforce readiness in North Macedonia." - Antje Wandelt
Sustainability and Digital Transformation	Green Energy, Digital Readiness, Decarbonization Initiatives	"Albania and North Macedonia hold potential for green energy growth." - Sophia Kluge "If the Western Balkans align their growth with decarbonization goals, they won't just attract more EU investment—they'll future-proof their economies." - Branimir Jovanović "Digital transformation is no longer optional. It's the bridge that connects the region to modern supply chains and international markets." - Radman Šelmić

Source: Own work.

Cross-Cutting Themes help broaden the themes that come across during the interviews and the literature review. They include additional topics regarding the problems that need addressing for the Western Balkans to become a long-lasting nearshoring destination.

Table 5: Cross-Cutting Themes

Cross-Cutting Theme	**Sub-Themes**	**Participant Quotes**
Opportunities and Investment Implications	Sector-Specific Opportunities, Investment Motivations	"The ICT sector is becoming a major driver of growth." - Radman Šelmić "With the right infrastructure and workforce training, we've shown that global companies are willing to commit long-term." - Marko Jukić "The region's strategic position offers a unique opportunity to become a resilient node in the European supply network." - Sophia Kluge
Infrastructure Development	Logistics Networks, Energy Infrastructure	"Infrastructure development remains a critical gap for regional integration." - Antje Wandelt "Logistics and infrastructure are still the biggest hurdles—we have the potential, but if you can't move goods efficiently, investors hesitate." - Marko Jukić
Challenges and Barriers	Regulatory Issues, Workforce Challenges, Infrastructure Limitations	"Administrative hurdles often delay renewable energy projects." - Sophia Kluge "Political uncertainty in some parts of the region still makes investors think twice before committing." - Zoran Nechev "The lack of a skilled workforce is a recurring barrier—we can't fully capitalize on nearshoring unless this is addressed." - Branimir Jovanovic
Regional Advantages	Cost Advantage, Cultural Proximity, Geographical Location	"The region's proximity to the EU is a clear advantage for nearshoring." - Radman Šelmić "We're close not just geographically, but also culturally—European companies often feel more at ease working with us." - Marko Jukić "Compared to other regions, the Western Balkans provide a unique combination of affordability, adaptability, and alignment with EU standards." - Sophia Kluge
Political Dynamics	EU Enlargement Impact, Local Governance Issues	"The ongoing EU enlargement process plays a significant role in shaping investments." - Zoran Nechev "Political will is just as important as economic incentives. Without stable governance, the region's nearshoring potential can't be fully realized." - Branimir Jovanović
Sustainability and Digital Transformation	Green Energy, Digital Readiness, Decarbonization Initiatives	"Albania and North Macedonia hold potential for green energy growth." - Sophia Kluge "We see digital transformation as a gateway to stronger integration with European markets and smarter, greener growth." - Antje Wandelt
Future Outlook	Policy Recommendations, Long-Term Potential	"The Western Balkans can evolve into a major hub if the right steps are taken." - Antje Wandelt "The next decade will be crucial. If the Western Balkans can deliver on reforms, infrastructure, and education, they could become a serious nearshoring alternative." - Branimir Jovanović

to be continued

Table 5: Cross-Cutting Themes (cont.)

Cross-Cutting Theme	**Sub-Themes**	**Participant Quotes**
Success Stories and Examples	Partnership Outcomes, Industry-Specific Achievements	"Collaboration with EU firms has improved efficiency." - Marko Jukić "The German dual education model has had a real impact in North Macedonia—we're seeing more companies investing because of the skilled labor it produces." - Antje Wandelt

Source: Own work.

Since this research relies on semi-structured interviews for primary research, theme-specific analysis focuses on the identified main themes. Each main theme will be analyzed in detail in the sections that follow. During the analysis, certain quotes emerge that help illustrate the key insights of the research. Quotes are selected based on their relevance to the themes derived from the interviews and their capability to encapsulate core ideas, enabling a rigorous and validated analysis.

6.2 Theme Specific Analysis

The underlying elements that are necessary to attract and sustain nearshoring investments in the Western Balkans are varied. Among these, infrastructure, workforce dynamics, regulatory frameworks, and the successful investments, which are covered under the theme of ‘’Success Stories’’ emerge as decisive. Each theme represents a unique aspect of the nearshoring potential of the Western Balkans and its challenges, and comprehending their give-and-take is essential for envisioning actionable strategies. The following sections delve into the aforementioned themes, starting with an exploration of infrastructure and connectivity.

6.2.1 Infrastructure and Connectivity

Infrastructure plays a crucial role in determining the feasibility of nearshoring destinations. The geographical proximity of the Western Balkans to the EU and its developing infrastructure make the region a potential candidate as a logistics and manufacturing hub. This section examines the participant perspectives regarding the strengths and gaps of the Western Balkans’ infrastructure, identifying critical areas that require improvement.

Participants frequently highlighted the critical role of infrastructure in attracting foreign investment. For instance, Zoran Nechev claimed, "Serbia’s highway network is the best in the region, making it an attractive logistics hub." Beyond logistics, improvements in infrastructure, such as renewable energy projects in North Macedonia, could catalyze growth in sectors like manufacturing and ICT by providing reliable energy sources and enhancing regional competitiveness. "Countries like Albania and North Macedonia have immense potential for renewable energy development, but implementation is slow due to bureaucratic obstacles," said Sophia Kluge, reflecting on the need to improve sustainability, which is slow due to bureaucratic hurdles. Antje Wandelt added another dimension, emphasizing the importance of technology zones like North Macedonia's Tirz, which offer low-cost spaces with comprehensive infrastructure, such as energy and water, to facilitate efficient operations.

Theoretical linkages underscore the role of robust transport and energy infrastructure as foundational to nearshoring success. As discussed in Chapter 3, infrastructure acts as both a prerequisite and an enabler for broader economic integration. Branimir Jovanovic pointed out the underutilization of railways, noting, "Railways are better now, more important now, and easier and everything compared to highways," highlighting the necessity of investment in railway networks to efficiently export large quantities of goods. The Western Balkans' position as a nearshoring destination is bolstered by ongoing investments in transport and energy projects. Recent EU-backed initiatives, such as the €3.2 billion package for 21 connectivity projects, aim to improve regional trade routes and foster sustainable economic growth. Key projects include transport infrastructure in Serbia and renewable energy projects in North Macedonia and Albania, which demonstrate the potential for enhancing the region's attractiveness to investors (Vienna Institute for International Economic Studies [wiiw], 2023).

The uneven distribution of development, such as Serbia's advanced highway network versus Albania's underdeveloped energy grid, highlights the need for targeted and region-specific investments. Moreover, experts emphasize the importance of linking regional infrastructure improvements with broader EU connectivity strategies to maximize economic integration and competitiveness (Vienna Institute for International Economic Studies [wiiw], 2023). By bridging these gaps, the Western Balkans can improve its attractiveness to EU companies seeking cost-effective, logistically viable hubs.

6.2.2 Workforce Dynamics

The region's workforce is frequently cited as a big competitive advantage due to its lower wages but satisfying educational levels. However, specific challenges such as brain drain and skills imbalance present an important challenge and are expected to become even more significant in the near future. This section examines how these dynamics impact the Western Balkans' ability to attract and sustain nearshoring investments while connecting these findings to extensive theoretical frameworks and applicable recommendations.

A significant theme across interviews was the availability and affordability of labor in the Western Balkans. However, participants agreed that this advantage is mitigating due to brain drain. Branimir Jovanovic stated, "The workforce is well-educated and affordable compared to Western Europe, but the brain drain poses a long-term risk." This insight from Jovanovic highlights the duality of the workforce dynamic – while the region offers cost-competitive labor, due to brain drain, the sustainability of this advantage is in danger. "The availability of skilled labor is becoming a pressing issue as migration to the EU continues, especially in technical fields," added Radman Šelmić. Antje Wandelt emphasized the role of dual education models in counteracting this issue, stating, "We implemented a dual education system for mechatronics and production techniques in 2017 to address the demand for skilled workers with specialized knowledge."

These findings agree with the discussions mentioned in Chapter 3, which emphasized that labor market dynamics act as both an opportunity and a challenge for nearshoring. The secondary research highlighted lower wage costs as a key advantage for the region, yet also illustrated the vulnerabilities in workforce retention and skills calibration. Participants also stated that workforce adaptability, multilingualism, and technical capabilities in certain sectors, particularly ICT and automotive, provide untapped potential for high-value nearshoring opportunities. This confirms the theoretical arguments emphasizing labor market specialization as a trigger for nearshoring success.

Targeted policy implementations such as vocational training programs and collaboration between governments and industries could address these disparities. Wandelt further stated the requirement of aligning educational outputs with industry needs, adding, "The education system should create people that society needs, not just fulfill market demands. Utilizing the best practices, such as dual education models discussed in the literature review, the region can improve its workforce retention and alignment with industry needs.

While workforce dynamics play a crucial role in shaping the operational feasibility of nearshoring, regulatory and political environments dictate the ease of entry and sustainability of such investments. Understanding these frameworks and having a holistic approach is crucial to address the concurrent barriers and unlock the region's full potential regarding nearshoring.

6.2.3 Regulatory and Political Environment

Just like workforce dynamics, the regulatory landscape in the Western Balkans has a similar duality. While alignment efforts with the EU standards have brought various improvements, inconsistencies in policy implementation and administrative hurdles caused by inefficiencies continue to impede investment growth. These challenges are amplified by the limited transparency in certain state-related regulations regarding specific sectors and state aid programs.

"The lack of transparency in state aid for foreign investors could avert further investments," stated Zoran Nechev. This sentiment is shared in Sophia Kluge's observation that "Administrative hurdles often delay the implementation of renewable energy projects, particularly in Albania and Kosovo." Antje Wandelt also pointed out inefficiencies, stating, "We lose a lot of time due to inefficiencies in public administration. Digitalization and compliance improvements are crucial to making the region more attractive for investors."

The most recent study found in the literature highlights the importance of implementing EU-compliant regulations and governance reforms to create a more predictable investment environment. Improved governance and reduced corruption levels are necessary for attracting higher levels of foreign direct investment (Vienna Institute for International Economic Studies [wiiw], 2023). These insights indicate a broader struggle to create a predictable, efficient, and supportive regulatory environment that fosters investor confidence.

Theoretical discussions from Chapter 4 reinforce the significance of regulatory predictability for nearshoring success. Bureaucratic inefficiencies increase operational costs and hinder long-term investments, as they fortify perceptions of risk. Harmonized regulatory frameworks across the region, combined with targeted reforms in high-growth sectors like renewable energy and ICT, could significantly increase investor confidence. One major recommendation is to establish public-private partnerships (PPPs) to reduce inefficiencies in administrative processes and align local laws with EU standards, creating a more transparent and efficient regulatory framework for investors (Vienna Institute for International Economic Studies [wiiw], 2023).

These improvements are essential not only to attract but also to sustain nearshoring investments in the region. Branimir Jovanovic added geopolitical concerns, observing, "Western investors are often hesitant due to open political issues and institutional inefficiencies, such as in Serbia, where neutrality policies and ties with Russia created temporary hesitations among investors. His remarks are supported by the most recent study as well, " Additionally, the study emphasizes that the Western Balkans' ability to attract investments is directly tied to their progress in judicial reforms and anti-corruption measures, which are currently perceived as lagging by international investors'' (Vienna Institute for International Economic Studies [wiiw], 2023).

6.2.4 Success Stories and Lessons Learned

The Western Balkans' potential as a nearshoring destination is showcased by several success stories that display the region's capacity for innovation and growth. The findings revealed more than ten global companies that enjoyed the benefits of the Western Balkans as a nearshoring destination. To mention a few, companies like Bosch and Continental stand out as milestones, utilizing significant scalability and strategic positioning of the region in global supply chains. Examples like this exemplify the potential of the Western Balkans as a nearshoring destination and highlight the advantages of collaborative partnerships between multinational companies and local Western Balkan firms.

Sophia Kluge and Radman Šelmić accentuate the significance of these investments, with Šelmić noting, "ICT is becoming a major driver of economic growth, attracting both local and foreign investments." Serbia's emergence as an ICT center in the Western Balkans displays how taking advantage of a cost-competitive and skilled workforce can drive industry-specific growth. In 2023, Serbia's ICT sector became the country’s largest net exporting industry, generating $3.9 billion in exports and growing at an annual rate of over 26% (Trade.gov, 2023). Key initiatives, such as the Vojvodina ICT Cluster, have connected academia, industry, and government, spearheading an innovation ecosystem that supports export-oriented IT services. Moreover, targeted investments in education and digital infrastructure have strengthened Serbia’s position as a leader in regional digital transformation (Vojvodina ICT Cluster, 2015; Serbian Government, 2023).

A recent study highlights that targeted investments in ICT infrastructure across the Western Balkans, particularly in broadband and software capabilities, could further enhance the region’s competitiveness and attract higher-value foreign investments. Additionally, North Macedonia’s digital innovation hubs serve as another example of how regional collaboration and technological advancements can amplify industry-specific growth (Vienna Institute for International Economic Studies [wiiw], 2023).

Similarly, the automotive sector is another industry that has been thriving, driven by partnerships that streamline technology transfer and capacity improvement. These successes support the theoretical discussions on industry-based specialization as a key driver of nearshoring. Marko Jukić highlighted the role of partnerships, stating, "Collaboration with European firms has helped us improve efficiency, access better technologies, and meet the demands of international clients." This example illustrates how partnerships foster capacity building and integration into global value chains. The study further emphasizes that fostering partnerships with multinational corporations and local SMEs can significantly reduce the skills gap and enhance local manufacturing capabilities (Vienna Institute for International Economic Studies [wiiw], 2023).

These success stories also demonstrate how planned investments in infrastructure, workforce development, and regulatory alignment can create sustainable models of success.

As the analysis of the established key themes concludes, the integration of these findings provides a holistic understanding of the nearshoring potential of the Western Balkans. The next section connects the empirical insights with conceptual discussions, offering an exhaustive perspective on the region’s dynamics.

7 DISCUSSION AND RECOMMENDATIONS

7.1 Summary of the Main Findings

This chapter helps summarize the main findings by highlighting the opportunities and the key obstacles that stand in the way of the Western Balkans and its nearshoring potential.

As discussed in Chapter 3, infrastructure plays a crucial role in enabling nearshoring. Both the policy literature review and expert insights from the semi-structured interviews support this point. Multiple studies emphasize the importance of logistics hubs, highway quality & connectivity, and regional transport systems to drive growth in industry sectors like manufacturing and ICT (OECD, 2009; World Bank, 2022; Rodrigue, 2020; Vienna Institute for International Economic Studies, 2023). Multiple participants pointed out that the highway and railway development in Serbia had a positive impact on export capacity and the operational efficiency of the country. Both the literature findings and the expert interviews support the argument that infrastructure is a foundational factor for the Western Balkans to compete as a nearshoring destination.

Another key topic that emerged during the literature review and the expert interviews is the workforce availability. While the participants acknowledged the advantages of cheap labor in the region, specific challenges such as brain drain and skill alignment were frequently mentioned as well. The expert interviews support the literature, which suggests that a cheap workforce alone is not sufficient; targeted education and training programs are needed. Interviews highlighted that vocational trainings that align skilled youth with sector-specific needs is crucial to meet the needs of skilled labor for specific industries such as ICT and advanced manufacturing.

Regarding the regulatory and political landscape within the Western Balkans, the literature review and the expert interviews revealed that inefficiencies in public administration and compliance delays were the main concerns. These kinds of efficiencies created policy-related bottlenecks. These administrative delays are noted as big factors that deter investments aimed at the region.

Another topic that was discussed with the participants, with the guidance of the literature review, was the successful investment stories. Examples of Bosch and Continental in Serbia surfaced as prime examples of nearshoring-related investments into the region. These stories act as examples of positive results that can be achieved if regional cooperation increases, administrative standards are improved, and partnerships between local and multinational actors multiply.

Literature review and expert interviews accentuate the interdependence of critical themes such as infrastructure, workforce, governance, and success stories. These factors display an overlapping dynamic of the region where improving one of these critical themes positively overlaps with other areas as well. Realizing this dynamic and the areas that require improvement would help the Western Balkans become a long-lasting nearshoring region.

7.2 Recommendations

This section covers recommendations that cover the key themes found in the research.

The purpose of key recommendations is to list the most crucial measures that need to be taken to increase the chances of the Western Balkans becoming a nearshoring destination. This short section summarizes the crucial recommendations briefly.

The first thing that needs recognising is the importance of state initiatives and aid programs. Both the state initiatives and aid programs play a crucial role in attracting foreign investors from the EU. To continue attracting these investments, more standardized evaluation methods have to be implemented. A more structured evaluation method for the initiatives can solidify the trust of the investors. After standardizing the evaluation mechanism, the administrative procedures can be streamlined by creating digital platforms and digitizing most of the required processes. Creating this kind of streamlined process is crucial to attract more investment.

In addition to administrative hurdles that require digitizing, another key issue that requires utmost attention is the cross-border delays within the Western Balkan area. A simplified approach to border-crossing can accelerate initiatives, aid, and investor-based projects.

7.2.1 Recommendations For Policymakers

The first of the practical recommendations is for the policymakers. And since infrastructure plays a crucial role for the region as a nearshoring prospect, using Serbia’s highway network would be a concrete example for policymakers to follow. The network has been attracting logistics investments and spearheading the region's growth.

In the meantime, renewable energy projects in North Macedonia demonstrate the possibility of raising the region’s sustainability standards. Even a few structural improvements in the region managed to boost both the manufacturing and ICT sectors for the Western Balkans. Case studies used in this research and the participant perspectives show that more strategic infrastructure investments, particularly in digital infrastructure and broadband development, could provide a foundation for higher-value industries like ICT and automotive (Vienna Institute for International Economic Studies [wiiw], 2023).

Developing vocational training programs is another key recommendation to improve the workforce quality in the Western Balkans region. North Macedonia’s collaboration with international organizations to improve vocational education acts as a role model for other regions. Such programs help bridge the skills gap, pushing for a sustainable and educated workforce that satisfies the industry's demands. ‘’Expanding these programs to include green skills and sustainability-focused training can align with EU Green Deal goals and enhance workforce readiness for emerging sectors like renewable energy and circular economies.’’ (Vienna Institute for International Economic Studies [wiiw], 2023).

Policymakers hold the biggest power when it comes to streamlining regulatory processes. Recent reforms conducted by Albania in administrative procedures for renewable energy projects showcase how the mitigation of bureaucratic inefficiencies can attract investors and accelerate project timelines. Establishing centralized, digitalized platforms for regulatory approvals could improve efficiency, reduce delays, and improve investor confidence.

Policymakers also hold the power to promote and streamline cross-border collaborations. The success of regional transport agreements such as CEFTA (Central European Free Trade Agreement) showcases the benefits of regional cooperation regarding transportation to boost trade and connectivity. Improved cross-border collaborations can optimize resource utilization and ensure united development across the Western Balkans, mitigating operational redundancies. ‘’Additionally, integrating regional strategies for decarbonization and sustainable logistics could strengthen the region's long-term attractiveness to European investors.’’ (Vienna Institute for International Economic Studies [wiiw], 2023).

7.2.2 Recommendations For Businesses

The first key recommendation for businesses that are operating in the Western Balkans is to leverage the workforce. There is a considerable number of youth looking to work, but in need of industry-specific training programs to bridge their existing skill gaps and become a more specialized workforce. For instance, partnering with local universities and various academic institutions can drive innovation and workforce development. ‘’Adopting public-private partnerships to co-develop training initiatives, particularly in ICT and renewable energy sectors, can amplify workforce specialization and attract global investments.’’ (Vienna Institute for International Economic Studies [wiiw], 2023).

Governments in the region and the EU already provide incentives and aid for businesses to improve their operating standards. Collaborating with the government and policymakers to access incentives and streamline regulatory requirements is crucial for businesses to attract more investment from the EU and cement their position as a nearshoring destination.

As already mentioned a couple of times, specific industries have more potency and a bigger opportunity pool in the Western Balkans compared to the rest. Taking advantage of these sector-specific opportunities can help Western Balkan countries attract more investments and push their position as a nearshoring location. The significant growth witnessed in Serbia and Bosnia within the ICT and automotive industries can act as an example to follow. ‘’Emerging opportunities in green technologies and sustainable supply chain practices should also be explored to align with global trends.’’ (Vienna Institute for International Economic Studies [wiiw], 2023). These detailed recommendations provide actionable steps for both business and policymakers, supported by case studies, literature review, successful investment examples, and participant recommendations.

7.2.3 Lessons For Stakeholders

Aside from the policymakers and the businesses, private stakeholders also play an important role in regards to improving the Western Balkans' attractiveness. Private stakeholders should fortify investments in the development of innovation hubs that connect academia, industry, and investors. The Vojvodina ICT Cluster provides a convincing example of how such ecosystems can enhance competitiveness and attract foreign investment (Vojvodina ICT Cluster, 2015). Additionally, fostering public-private collaborations can further accelerate innovation and workforce development, as observed in North Macedonia’s ICT sector (Vienna Institute for International Economic Studies [wiiw], 2023). In addition, stakeholders should also push for collaborative partnerships between local Western Balkan firms and multinational corporations, as seen from the examples in the ICT and automotive sectors, to streamline technology transfer, capacity building, and scalability.

7.3 Limitations

This master's thesis primarily relies on qualitative methodology, utilizing semi-structured interviews with experts across academia, policy, and business. While the findings offer depth and valuable nuance, certain limitations should be acknowledged. The study does not incorporate quantitative analysis, which could have provided statistical validation to complement the interview data.

Although the participants were selected for their relevance and expertise regarding the research topic, a degree of social desirability bias may still be present, potentially affecting the results. Desireability bias would be present if the participants display a tendency to exaggerate the positives and underreport the negative components (Fisher, 1993). By asking open-ended questions, the research aimed to mitigate this possibility.

Another limitation lies in the composition of the participant pool: while diverse and good in volume, it underrepresents the views of SMEs and local stakeholders, whose perspectives could further enrich the understanding of nearshoring dynamics. Finally, some sectors were discussed more extensively than others, meaning certain industries may require deeper investigation in future research.

7.4 Future Research

Future studies could explore:

- Quantitative assessment of nearshoring’s economic effects on the Western Balkan region would support the findings of this research. This kind of assessment would help with the statistical data that this master’s thesis is lacking.
- A comparative analysis between the Western Balkans and other emerging nearshoring destinations, such as the other European Neighborhood economies, would help better

cement the region’s strategic advantages and limitations, broadening the scope of the research.

- More in-depth, sector-specific research would enlighten operational constraints, investment requirements, and labor market needs for the industries in question.
- Research, that is more longitudinal in nature, tracking the history of nearshoring interest in the Western Balkans over time, especially starting with the global supply chain disruptions due to the COVID-19 pandemic or the Russia-Ukraine war, would help assess if the current investment trends in the region is temporary or has a long-term potential.
- Studies that only focus on local SME integration into global supply chains and their green infrastructure readiness, especially the adoption of circular economy practices, decarbonization efforts, and ESG.

These recommendations would address the specific gaps mentioned in the limitations chapter, paving the way for a more nuanced, multi-dimensional understanding of the Western Balkans’ nearshoring potential.

8 CONCLUSION

This thesis focused on exploring the nearshoring potential of the Western Balkans, delving into factors such as supply chain disruptions, the most recent geopolitical events, and the EU’s strategic planning for the region. With the combination of literature review and expert interviews, the research demonstrates that the Western Balkans has a promising potential to become a nearshoring destination, particularly due to its geographical proximity to the EU, competitive labor costs, educated youth, significant efforts to align with European standards (Vienna Institute for International Economic Studies, 2023; World Bank, 2023).

However, there are several challenges that require addressing for the Western Balkans to become a long-lasting nearshoring destination for the EU. Even though the literature review and the expert interviews revealed multiple hurdles, improving infrastructure, enhancing regulatory transparency, strengthening institutional governance, and investing in workforce development surfaced as the most urgent necessities. Both the literature review and the expert interviews emphasize that cheap labor by itself is not enough; the region requires strategic reforms and targeted investments. A quote from one of the participants reinforces this claim: “You cannot build a resilient supply chain without investing in people and infrastructure.”

The expert interviews revealed positive examples of progress, such as Serbia’s digital transformation, ICT sector development, and growing manufacturing investment in North Macedonia. These developments in the region are clear examples of success stories that support the claim that the Western Balkans are on the way to becoming a stable nearshoring destination. With the investments from the EU, the region is gradually realizing the opportunity while implementing the necessary reforms (European Commission, 2023).

This research contributes to the supply chain resilience topic while focusing on the Western Balkans' role as a nearshoring destination for the EU. It utilizes key literature and expert interviews to assess the region's strategic role in Europe's economic future. The research also aims to provide policy recommendations, investment strategies, and further additional research suggestions that would help cement the Western Balkans' role as a nearshoring destination for the EU.

Furthermore, according to the findings of the thesis, it is suggested that the transition required by the Western Balkans to become a nearshoring destination is not only an economic decision but also a geopolitical strategy driven by sustainability. As mentioned in the thesis, resilience, diversification, and environmental responsibility are becoming crucial factors for global supply chains. Being aware of this transition, the Western Balkans can offer more than just cost advantages, but also can adapt to these sustainability trends. By following these trends, the Western Balkans can strengthen its position as the EU's long-term investment destination (EBRD, 2023; UNCTAD, 2023).

Another topic this thesis touches on is the necessary cooperation between the public and private sectors. Both the literature review and the expert interviews highlight that cooperation between the parties is essential. In addition, supporting SMEs by expanding vocational training programs can play a critical role in enhancing the region's competitiveness. For this to happen, more structured and transparent cooperation between the public and private sectors is required.

In conclusion, the Western Balkans stand at a crucial turning point. If the reforms are undertaken carefully and the investments received from the EU are strategically allocated, the region can transition into becoming a reliable and competitive nearshoring location for the European Union.

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APPENDICES

Appendix 1: Povzetek (Summary in Slovene language)

Ta magistrska naloga raziskuje potencial Zahodnega Balkana kot privlačne destinacije za bližanje proizvodnje (nearshoring) v luči motenj v globalnih dobavnih verigah, nedavnih geopolitičnih dogodkov in strateškega načrtovanja Evropske unije za regijo. Naloga temelji na kombinaciji poglobljenega pregleda strokovne literature in polstrukturiranih intervjujev z desetimi strokovnjaki iz akademskega, javnega in zasebnega sektorja.

Rezultati raziskave kažejo, da ima Zahodni Balkan pomembne prednosti, kot so geografska bližina Evropski uniji, konkurenčni stroški dela, izobražena mlada delovna sila ter vse večja usklajenost z evropskimi standardi. Vendar pa regija še vedno sooča z izzivi, kot so pomanjkljiva infrastruktura, nizka kakovost upravljanja, neučinkovitost javne uprave ter pomanjkanje ustreznih veščin v delovni sili. Tako literatura kot intervjuji poudarjajo, da nizki stroški dela sami po sebi niso dovolj — potrebne so strateške reforme in ciljno usmerjene naložbe.

Naloga izpostavi tudi pozitivne primere, kot je digitalna preobrazba Srbije, rast IKT sektorja in povečane proizvodne investicije v Severni Makedoniji, ki nakazujejo razvoj regije kot zanesljive destinacije za bližanje proizvodnje. Z vse večjimi vlaganji EU ter regionalnim sodelovanjem Zahodni Balkan stopa na pot dolgoročne integracije v evropske dobavne verige.

Naloga prispeva k širšemu razumevanju odpornosti dobavnih verig in prikazuje, kako lahko Zahodni Balkan izkoristi svoje prednosti ter premaga ovire, da postane ključen del evropskega gospodarskega prostora.

Appendix 2: General Question Pool

The general question pool chosen for the interviews covered five thematic areas:

1. Opportunities and Investments:

a) How do you perceive the current trend of European companies investing in the Western Balkans? What opportunities does this present for your region?

b) Which industries or sectors in the Western Balkans are most attractive to these investments, especially from a nearshoring perspective?

2. Regional Advantages and Nearshoring Potential:

a) What unique advantages does the Western Balkans offer as a nearshoring destination compared to other regions?

b) Can you share examples of industries with the most potential for nearshoring investments in the Western Balkans?

3. Challenges and Barriers:

a) What are the main challenges the Western Balkans face in becoming a reliable nearshoring destination for European companies?

b) How have governments or local businesses attempted to address these challenges?

4. Sustainability and Digital Transformation:

a) How important are sustainability and digital transformation for making the Western Balkans competitive as a nearshoring destination?

b) What initiatives could enhance the region's readiness for digital transformation?

5. Future Outlook and Strategic Initiatives:

a) How do you see the future of nearshoring in the Western Balkans evolving over the next few years?

b) What policy or regulatory improvements do you believe are necessary to make the region an even more attractive nearshoring destination?

Appendix 3: Participant-specific Questions

Marko Jukić (Bosnia and Herzegovina)

Questions:

1. How does being part of the Brock Group influence Jajce Alloy Wheels' integration into European supply chains?
2. What are the main challenges your company faces in collaborating with European partners?
3. What role does Bosnia's infrastructure play in facilitating or hindering your company's operations?

Justification:
These questions targeted Marko's direct experience in supply chain management and multinational partnerships. Marko emphasized competitive advantages like cost structure, skilled workforce, and alignment with EU standards, but also highlighted infrastructure gaps and talent retention challenges.

Radman Šelmić (Serbia)

Questions:

1. What unique advantages does Serbia offer compared to other Western Balkan countries for European companies considering nearshoring?
2. How do you perceive the role of geopolitical stability in attracting investments to Serbia?
3. What industries in Serbia are particularly attractive for nearshoring, and why?

Justification:
Radman's academic background provided insights into Serbia's comparative advantages, particularly its ICT and automotive sectors, and he discussed challenges in workforce retention and regulatory alignment.

Sophia Kluge (Regional)

Questions:

1. What unique advantages does the Western Balkans offer as a nearshoring destination compared to other regions?
2. Can you identify industries in the region that hold untapped potential for nearshoring?
3. What role do regional trade agreements play in enhancing nearshoring opportunities in the Western Balkans?

Justification:
Sophia's expertise in regional development provided a broad view of nearshoring opportunities and challenges, emphasizing trade agreements and sectoral specialization.

Antje Wandelt (North Macedonia)

Questions:

1. How has the German dual education model benefited North Macedonia's labor market in attracting nearshoring opportunities?
2. What policies would you recommend to further align vocational training with nearshoring demands?
3. How does North Macedonia's policy landscape support or hinder foreign investments?

Justification:
Antje focused on workforce readiness and dual education's role in meeting industry demands. She provided insights into how policy reforms could further attract investments.

Zoran Nechev (Regional Policy Expert)

Questions:

1. How do external influences like geopolitical tensions impact the Western Balkans' integration with the EU?
2. What role does EU policy play in shaping the nearshoring potential of the region?
3. How does political stability across the region influence investment decisions by European companies?

Justification:
Zoran's expertise in policy and EU integration provided context for external factors impacting nearshoring dynamics, particularly EU alignment and political stability.

Branimir Jovanovic (Macedonia, Vienna Institute)

Questions:

1. How has your research on nearshoring illuminated the key factors driving European companies to invest in the Western Balkans?
2. What role do regional cooperation and integration efforts play in enhancing Serbia's attractiveness for nearshoring?
3. What policy changes would you recommend to strengthen Serbia's nearshoring capabilities?

Justification:
Branimir's scholarly perspective added depth to the analysis of Serbia's regional advantages and challenges, emphasizing policy and regional cooperation.

Appendix 4: Main Themes and Sub-themes

Main Themes	**Sub Themes**
Opportunities & Investment Implications	Sector-Specific Opportunities
	Investment Motivations
Challenges and Barriers	Regulatory Issues
	Workforce Challenges
	Infrastructure Limitations
Regional Advantages	Cost Advantage
	Cultural Proximity
	Geographical Location
Sustainability and Digital Transformation	Green Energy
	Digital Readiness
	Decarbonization Initiatives
Future Outlook	Policy Recommendations
	Long-Term Potential
Success Stories and Examples	Partnership Outcomes
	Industry-Specific Achievements
Political Dynamics	EU Enlargement Impact
	Local Governance Issues
Infrastructure Development	Logistics Networks
	Energy Infrastructure
Workforce Dynamics	Brain Drain
	Skills Alignment

Appendix 4: Consent for Sharing Insights

Each expert that attended the interview were asked of consent to record the interview, share the insights using their real name and quote their thoughts as well. The consent is taken both at the beginning of the recording and at the end.